

AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

July 2, 2003

BOARD OF SUPERVISORS

County Government Center
385 North Arrowhead Avenue, Fifth Floor
San Bernardino CA 92415-0110

Enclosed are copies of the audit reports prepared by the Internal Audits Section for the quarter ending June 30, 2003.

Respectfully submitted,

Larry Walker
AUDITOR/CONTROLLER-RECORDER

By: _____
Howard M. Ochi
Chief Deputy Auditor

LDW:HO:dlp

Attachments (5)



AUDIT REPORTS

PREPARED BY INTERNAL AUDITS SECTION

FOR THE QUARTER ENDING

JUNE 30, 2003

Office of

AUDITOR/CONTROLLER-RECORDER

DEPARTMENTS

ARROWHEAD REGIONAL MEDICAL CENTER

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County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

November 21, 2002

MARK UFFER, DIRECTOR
ARROWHEAD REGIONAL MEDICAL CENTER
400 North Pepper Avenue
Colton, CA 92324-1817

**SUBJECT: SURPRISE AUDIT OF ARROWHEAD REGIONAL MEDICAL CENTER'S
CASH CONTROLS**

Introductory Remarks

In compliance with Article V, Section 6 of the San Bernardino County Charter, the Board of Supervisor's Policy Statement on Internal Operational Auditing, Chapter 3 of the Internal Controls and Cash Standards Practice Manual, and an agreement between the Arrowhead Regional Medical Center (ARMC) and the Auditor/Controller-Recorder, we have completed a surprise audit of cash controls at the ARMC on October 25, 2002.

Scope of the Audit

We conducted our audit according to the "Standards for Professional Practice of Internal Auditing" published by the Institute of Internal Auditors and the provisions of the San Bernardino County Internal Controls and Cash Standard Practice Manual.

The audit was performed in accordance with an agreement between the ARMC and the Auditor/Controller-Recorder. The audit was conducted to verify that controls are present to insure that revenue collected is deposited intact and that the cash funds are used for their authorized purpose. The ARMC has 21 Imprest Funds at 16 locations. Thirteen locations are situated on the hospital grounds. Three locations are clinics located in the San Bernardino and surrounding communities. In addition, we followed up on four prior findings. The results of the follow-up are discussed in the Action Taken on Prior Recommendations section.

We identified organizational, procedural, and accounting changes which will strengthen the internal controls over cash receipts and change funds. The results of our audit are presented in the Current Findings and Recommendations section of the report.

The audit work performed would not necessarily disclose all material weaknesses in the system of internal controls.

A draft report was sent to ARMC on April 23, 2003 and was discussed at the Exit Conference on May 14, 2003. ARMC responses to our recommendations are included in this report.

ACTION TAKEN ON PRIOR RECOMMENDATIONS

The recommendations for Findings One through Five dated May 16, 2002 and recurring Finding One dated November 22, 1996 were adopted.

CURRENT FINDINGS AND RECOMMENDATIONS

Finding One: **The Accounts Payable Section's petty cash expenditures were not approved.**

Accounts Payable's petty cash expenditures were not properly approved. Not one of the three vouchers selected for review had an approving signature.

ARMCs Accounts Payable Section's petty cash procedures require that an authorized departmental employee approve the petty cash voucher. Without proper approval of petty cash expenditures, losses or irregularities could occur.

Recommendations:

Ensure that all petty cash expenditures are approved with an authorized signature prior to preparation of the check.

Auditee's Response:

All invoices are approved by the requesting party prior to a petty cash check being prepared. A copy of the approved invoice is maintained in Accounts Payable as back-up.

Finding Two: **Receipting procedures were not followed for monies collected from a fundraising activity nor were the funds deposited timely.**

Funds in the amount of \$3,480 were found in the safe in patient accounts from the hospital foundation's golf tournament. In addition, there was no accountability for the funds as no receipts were written. The funds had been deposited five days subsequent to the date of the cash count.

Finding Two: **Receipting procedures were not followed for monies collected from a fundraising activity nor were the funds deposited timely – Continued.**

The lack of accountability and untimely deposits can result in irregularities.

Recommendations:

Use the Official County Receipts to receipt fundraising monies and deposit collections in a timely manner.

Auditee's Response:

ARMC will follow the County policy on Proper Accounting for Outside Funds as discussed at the exit conference.

Finding Three: **Unused cash receipt books were not safeguarded.**

Unused cash receipt books were not properly safeguarded in the patient accounts section. We noted 46 unused receipt books at various workstations that were accessible to all staff. In addition, a box of unused receipt books with a broken seal was stored in the copy machine room.

Recommendations:

Ensure that unused receipts are stored in a locked and secure location.

Auditee's Response:

All unused receipt books are now protected in locked cabinets. Ten to fifteen receipt books are locked at a Fiscal Clerk II's workstation for daily replenishment. The balance are now locked in the Supervising Fiscal Clerk II's file cabinet. Access is limited to the Fiscal Clerk II, Supervising Fiscal Clerk II and her supervisor.

Finding Four: **The Patient Accounts Section's change fund was not reconciled.**

Cash funds to replace a change order in the amount of \$750 dated October 10, 2002 were not deposited on the same date. This occurred because the Patient Accounts Section did not perform a daily reconciliation of the change fund. Had a daily reconciliation been performed, the replacement funds would have been discovered and deposited timely.

Finding Four: **The Patient Accounts Section's change fund was not reconciled – Continued.**

An effective internal cash control includes daily reconciliation.

Recommendations:

Sound internal control procedures include periodic reconciliation. Implement a procedure that will ensure that the fund custodian reconciles the change fund daily.

Auditee's Response:

The Daily Cash Reconciliation procedure has been initiated. When Brink's delivers a Change Order, a deposit is immediately prepared to be deposited the following day.

Finding Five: **Gift certificates and meal coupons were not sequentially numbered and their issuance and redemption were not tracked.**

The café issues five types of coupons for meals and one type of gift certificate which are issued by the nutritional service secretary. Some of these coupons are sequentially numbered. The meal coupon which is sequentially numbered is the only coupon tracked by a log, but the log is not reconciled after the coupons/certificates are redeemed.

An effective internal control procedure would include sequentially numbering gift certificates and coupons to facilitate issuance and redemption tracking.

The secretary in nutritional services was unaware of the effect of not having gift certificates and coupons sequentially numbered and tracked. Gift certificates and coupons can be duplicated and redeemed without the knowledge of the department.

Recommendation:

Sequentially number all gift certificates and coupons for accountability. Reconcile the gift certificates and coupons issued upon redemption to the log.

Auditee's Response:

Effectively immediately, Gift Certificates and Meal Coupons will be numbered sequentially. Gift Certificates will be in increments of \$5.00 only. The issued Gift Certificates and Meal Coupons will be reconciled with the Coupon Redemption Log.

AudRpt\Mark Uffer
Arrowhead Regional Medical Center
November 21, 2002
Page-5-

We would like to express our appreciation to your staff for their support and cooperation during the audit of cash controls.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

Copies to:

County Administrative Office
ARMC's Associate
Administrator/Finance
Board of Supervisors
Grand Jury (2)
Audit File (3)

By: _____
Larry G. Soria
Senior Internal Auditor II
Internal Audits Section

Date Report Distributed: 5/20/03

LDW:SL:LGS:spr.3

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LARRY WALKER

Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK

Assistant Auditor/Controller-Recorder
Assistant County Clerk

May 5, 2003

Richard Larsen

Treasurer/Tax Collector

172 W. Third St, First Floor

San Bernardino, CA 92415-0360

SUBJECT: TREASURER'S CASH & INVESTMENT AUDIT – November 18, 2002

Introductory Remarks

In accordance with California Government Code Sections 26920 through 26923 and County Board of Supervisor's resolution dated July 6, 1971, we have completed a cash count and reconciliation of the Treasurer's Cash Book as of November 18, 2002. In addition, we evaluated investments for compliance with California Government Code Section 53601, "Securities Authorized for Investment" and with the Treasurer's Investment Policy.

Scope of Audit

We audited selected financial transactions, operations, procedures, and controls in effect over cash and investments. Our audit was made in accordance with generally accepted auditing standards and included such tests of the records and other auditing procedures as we considered necessary in the circumstances. The scope of our audit did not include confirmations of bank accounts and investments.

Audit Results

Cash and investments of \$1,931,871,120 as stated in the Treasurer's cashbook at November 18, 2002 reconciled to cash on hand and supporting documentation in all material respects.

Treasurer Cash & Investment Audit
Richard Larsen
May 5, 2003
Page -2-

There were no instances of non-compliance noted in the evaluation of compliance with California Government Code Section 53601 and the Treasurer's Investment Policy. Our study and evaluation, made for the limited purpose described above, would not necessarily disclose material weaknesses in internal controls. Nothing came to our attention that indicated procedures and controls are not materially adequate.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

Copies to:

County Administrative Office
Board of Supervisors
County Recorder
Grand Jury (2)
Oversight Committee (4)

By:

Linda C. Kjeldgaard, CPA
Internal Auditor II
Internal Audits Section

Audit File (3)

Dated Report Distributed: 5-12-03

LDS:LCK:spr.1

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

May 29, 2003

Richard Larsen, Treasurer/Tax Collector
172 W. Third St., First Floor
San Bernardino, CA 92415-0360

SUBJECT: TREASURER'S CASH AND INVESTMENTS AUDIT DECEMBER 31, 2002

Introductory Remarks

In accordance with California Government Code Sections 26920 through 26923 and County Board of Supervisor's resolution dated July 6, 1971, we have completed a cash count and reconciliation of the Treasurer's Cash Book as of December 31, 2002. In addition, we evaluated investments for compliance with California Government Code Section 53601, "Securities Authorized for Investment" and with the Treasurer's Investment Policy.

Scope of Audit

We audited selected financial transactions, operations, procedures, and controls in effect over cash and investments. Our audit was made in accordance with generally accepted auditing standards and included such tests of the records and other auditing procedures as we considered necessary in the circumstances.

Audit Results

Cash and Investments of \$2,220,679,729 as stated in the Treasurer's cashbook at December 31, 2002 reconciled to cash on hand and supporting documentation in all material respects. There were no instances of non-compliance noted in the evaluation of compliance with California Government Code Section 53601 and the Treasurer's Investment Policy.

Treasurer Cash & Investment Audit
Richard Larsen
May 5, 2003
Page -2-

There were no instances of non-compliance noted in the evaluation of compliance with California Government Code Section 53601 and the Treasurer's Investment Policy. Our study and evaluation, made for the limited purpose described above, would not necessarily disclose material weaknesses in internal controls. Nothing came to our attention that indicated procedures and controls are not materially adequate.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

Copies to:

County Administrative Office
Board of Supervisors
County Recorder
Grand Jury (2)
Oversight Committee (4)

By: Linda C. Kjeldgaard, CPA
Internal Auditor II
Internal Audits Section

Audit File (3)

Dated Report Distributed: 5-12-03

LDS:LCK:spr.1

**AUDIT REPORT
TREASURER/TAX COLLECTOR
INTEREST APPORTIONMENT
FOR THE FISCAL YEARS ENDING
JUNE 30, 2001 AND JUNE 30, 2002**

Prepared By:

**Internal Audits Section
Office of the Auditor/Controller-Recorder
January 14, 2003**

TREASURER/TAX COLLECTOR INTEREST APPORTIONMENT

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LARRY WALKER

Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK

Assistant Auditor/Controller-Recorder
Assistant County Clerk

January 14, 2003

RICHARD LARSEN

Treasurer/Tax Collector
172 West Third Street
San Bernardino, CA 92415-0360

SUBJECT: AUDIT OF FISCAL YEARS 2000/2001 AND 2001/2002 APPORTIONMENTS

Introductory Remarks

In compliance with Article V, Section 6 of the San Bernardino County Charter and the Board of Supervisor's Policy Statement on Internal Operational Auditing, we have completed an audit of the interest apportionments by the San Bernardino County Treasurer's Office for the fiscal years ending June 30, 2001 and June 30, 2002.

In fiscal year 1997/98, an error was discovered in the way the computer program processed the interest apportionment. The Treasurer-Tax Collector determined that the error resulted in misallocation of interest. On July 1, 1999, the Treasurer-Tax Collector implemented the correction process to pay back interest that was due to certain funds and recover interest overpaid to other funds. This process will be completed by June 30, 2003. We did not audit the interest correction payback amounts. An independent analysis was performed by Vavrinek, Trine, Day & Co., LLP whose report was furnished to us.

Scope of Audit

Our audit was made in accordance with generally accepted auditing standards and included such tests, as we considered necessary in the circumstances. Those tests were not designed for nor would they necessarily disclose material weaknesses in the internal controls. Specifically, we examined the following areas:

- A. Apportionment of interest received among various funds before consideration of interest correction payback.
- B. Accrual of interest earned but not yet received as of June 30, 2001 and June 30, 2002.

Results of Audit

The attached Summaries of Apportioned Interest (Schedule 1 and Schedule 2), present fairly the total amount of interest received and disbursed by the San Bernardino County Treasurer for the four quarters of fiscal year 2000/01 and fiscal year 2001/2002 and interest earned but not yet received as of June 30, 2001 and June 30, 2002. Schedules 3 and 4 are presented for informational purposes only.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

Copies to:

County Administrative Office
Board of Supervisors
Grand Jury (2)
KPMG
Audit File (3)

By: _____

Sheila M. Schneider
Senior Internal Auditor
Internal Audits Section

Date Report Distributed: 6/4/2003

LDW:SMS:spr.1

SCHEDULE 1

County of San Bernardino
Treasurer/Tax Collector
Summary of Apportioned Interest
Fiscal Year 2000/2001

Interest Received and Disbursed

<u>Col. 1</u>	<u>Col. 2</u>	<u>Col. 3</u>	<u>Col. 4</u>	<u>Col. 5</u>	<u>Col. 6</u>
<u>Quarter Ended</u>	<u>Average Daily Balance</u>	<u>Quarterly Interest Received</u>	<u>Treasurer's Cost</u>	<u>Quarterly Interest Disbursed (Col.3-Col.4)</u>	<u>Net Interest Factor (Col.5/Col. 2)</u>
9/30/2000	\$ 1,690,392,426	\$ 33,097,069	\$ 265,086	\$ 32,831,983	1.942269883%
12/31/2000	1,839,453,304	23,996,368	408,086	23,588,282	1.282352857%
3/31/2001	2,061,595,269	33,809,786	463,486	33,346,300	1.617499831%
6/30/2001	2,189,974,854	31,877,449	463,486	31,413,963	1.434444005%
Yearly Totals	\$ 7,781,415,853	\$ 122,780,672	\$ 1,600,144	121,180,528	6.276566577%
Averages	\$ 1,945,353,963				1.557306926%

Allocations By Fund Types

School Funds:	
General	\$ 58,204,403
Debt Service	1,371,459
Total Schools	59,575,862
Special Districts and Agency	43,984,051
County General Fund	17,620,615
Total Allocation	\$ 121,180,528

Accrual Allocation Percentage

Fourth Quarter Interest Earned but not yet received(accrual)	\$17,154,612	
Fourth Quarter Interest Disbursed	\$31,413,963	= <u>54.60823902%</u>

See Accompanying Audit Report

SCHEDULE 2

County of San Bernardino
Treasurer/Tax Collector
Summary of Apportioned Interest
Fiscal Year 2001/2002

Interest Received and Disbursed

<u>Col. 1</u>	<u>Col. 2</u>	<u>Col. 3</u>	<u>Col. 4</u>	<u>Col. 5</u>	<u>Col. 6</u>
<u>Quarter Ended</u>	<u>Average Daily Balance</u>	<u>Quarterly Interest Received</u>	<u>Treasurer's Cost</u>	<u>Quarterly Interest Disbursed (Col.3-Col.4)</u>	<u>Net Interest Factor (Col.5/Col. 2)</u>
9/30/2001	\$ 1,958,999,805	\$ 29,155,053	\$ 784,996	\$ 28,370,057	1.448190905%
12/31/2001	1,995,071,820	20,720,070	434,996	20,285,074	1.016759086%
3/31/2002	2,020,876,722	22,892,389	434,996	22,457,393	1.111269815%
6/30/2002	2,172,920,883	21,938,567	300,749	21,637,818	0.995794102%
Yearly Totals	\$ 8,147,869,230	\$ 94,706,079	\$ 1,955,737	92,750,342	4.572013907%
Averages	\$ 2,036,967,308				1.138338618%

Allocations By Fund Types

School Funds:	
General	\$ 43,731,730
Debt Service	1,132,686
Total Schools	<u>44,864,416</u>
Special Districts and Agency	36,686,912
County General Fund	11,199,014
Total Allocation	<u>\$ 92,750,342</u>

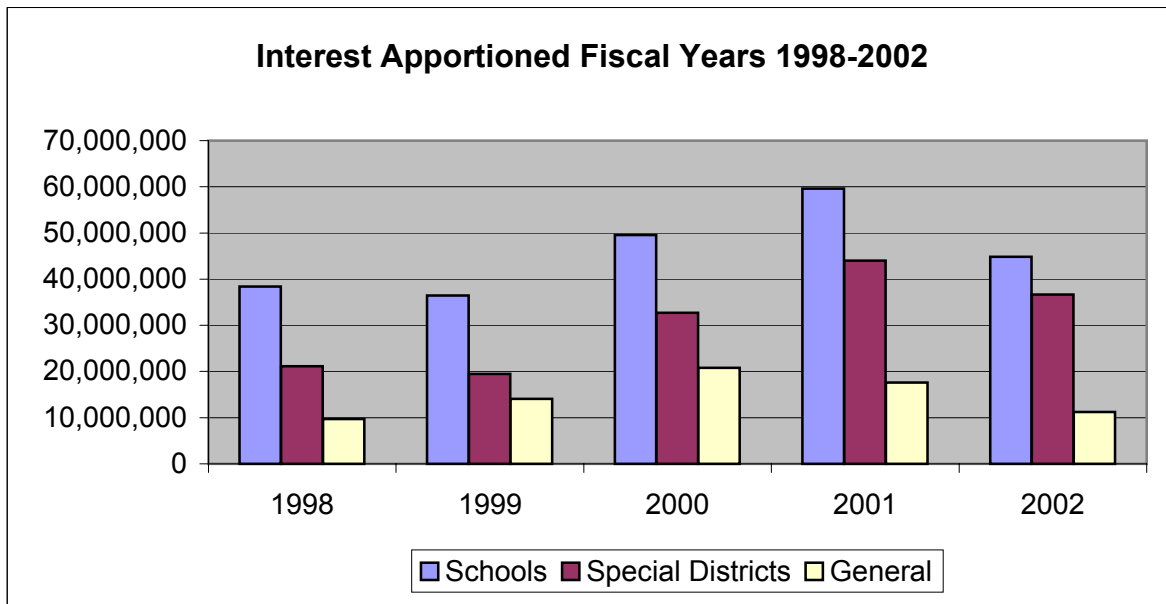
Accrual Allocation Percentage

Fourth Quarter Interest Earned but not yet received(accrual) \$8,415,848
Fourth Quarter Interest Disbursed \$21,637,818 = **38.89416206%**

See Accompanying Audit Report

County of San Bernardino
Treasurer/Tax Collector
Five Year Summary of Apportioned Interest
By Fund Type
FYE's 6/30/01 and 6/30/02

<u>Fund Type</u>	<u>FYE 6/30/1998</u>	<u>FYE 6/30/1999</u>	<u>FYE 6/30/2000</u>	<u>FYE 6/30/2001</u>	<u>FYE 6/30/2002</u>
Schools	\$38,391,353	\$36,443,825	\$49,528,566	\$59,575,862	\$44,864,416
Special Districts	21,108,230	19,441,403	32,704,957	43,984,051	36,686,912
General Fund	9,736,077	14,043,056	20,801,755	17,620,615	11,199,014
Total	\$69,235,660	\$69,928,284	\$103,035,278	\$121,180,528	\$92,750,342



Note:

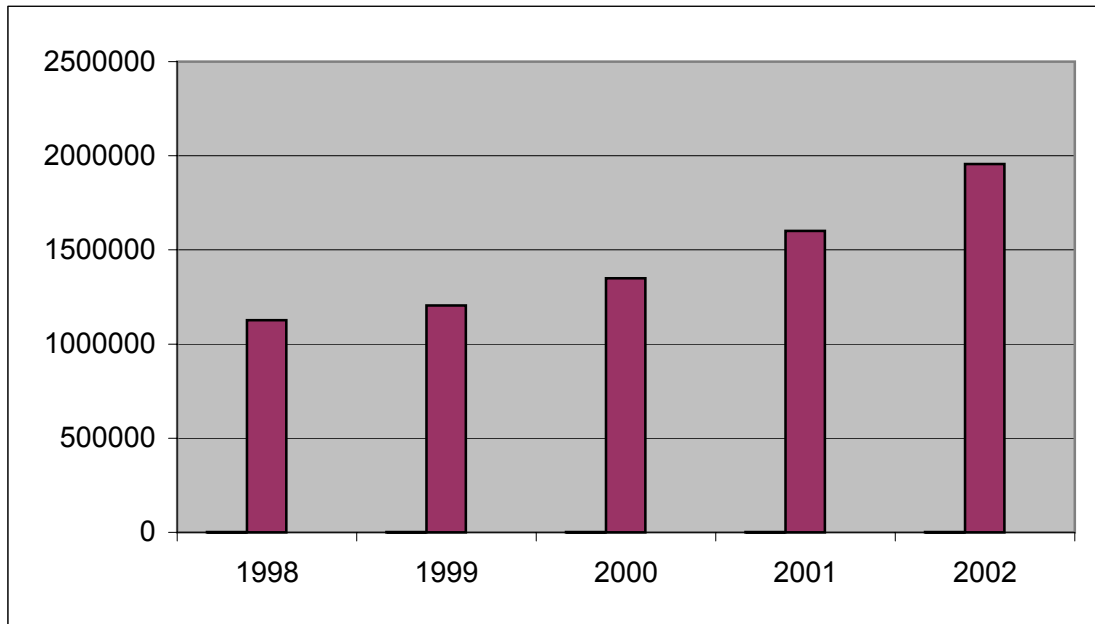
Schedule 3 does not reflect corrections of interest apportionment resulting from the payback process.

See Accompanying Audit Report

SCHEDULE 4

County of San Bernardino
Treasurer/Tax Collector
Five Year Summary of Treasurer/Tax Collector Costs
FYE's 6/30/01 and 6/30/02

	<u>FYE</u> <u>6/30/1998</u>	<u>FYE</u> <u>6/30/1999</u>	<u>FYE</u> <u>6/30/2000</u>	<u>FYE</u> <u>6/30/2001</u>	<u>FYE</u> <u>6/30/2002</u>
Treasurer/ Tax Collector Costs	<u>\$1,127,300</u>	<u>\$1,205,426</u>	<u>\$1,349,944</u>	<u>\$ 1,600,144</u>	<u>\$ 1,955,737</u>



See Accompanying Audit Report

AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

January 16, 2003

RICHARD LARSEN
Treasurer/Tax Collector
172 West Third Street
San Bernardino, CA 92415-0360

SUBJECT: MANAGEMENT LETTER REGARDING INTEREST APPORTIONMENT AUDIT

We have audited the interest apportionments of the San Bernardino County Treasurer's Office for the fiscal years ending June 30, 2001 and June 30, 2002 and have issued our report thereon dated January 14, 2003. In planning and performing our audit of the interest apportionments, we considered internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the gross interest apportionment.

An audit does not include examining effectiveness of internal control and does not provide assurance on internal control. However, we noted a certain matter involving internal control and its operation, which is presented below, that we do not consider to be a reportable condition under standards presented by the American Institute of Certified Public Accountants. Reportable conditions involve matters that, in our judgment, could adversely affect the organization's ability to record, process, summarize and report financial data consistent with the assertions of management in the audit report. We have not considered internal control since the date of our report.

The finding and recommendation listed below are presented for your consideration. This finding and recommendation has been discussed with the appropriate members of management, and is intended to improve internal control.

Finding One: Information Services Department copied over a tape containing a Treasurer's Report for Interest Apportionment for the third quarter ending March 31, 2002.

The Information Services Department (ISD) processes all Treasurer's database reports for the interest apportionment process and stores this information on tapes stored at the ISD office. During the course of the audit, it was discovered that the *TZ300 Average*

Daily Balance Adjusted Deposit report for the third quarter of fiscal year 2001/2002 could not be accessed via Control-D.

Upon inquiry a programmer at ISD explained that the tape containing the report had been taped over which removed the report. This was the result of an error by the Tape Librarian. County policy is to maintain original documents that are used in processing data for a minimum of one calendar year plus five previous fiscal years as noted in the County Records Management Manual. The Treasurer's office has an agreement with ISD to maintain all electronic data stored at ISD for a period of five years.

Recommendations

Verify at the end of each fiscal quarter that all interest apportionment reports are available for viewing in Control-D. In addition, notify ISD of the error.

Management's Response

Such a verification process would not prevent ISD from inadvertently purging the files. As an alternative, the Treasurer/Tax Collector's Office is discussing other options with ISD for backing up Treasurer database files on ISD's system to provide additional redundancy, etc. The Treasurer's Office also stores hard copies of many of the TZ reports.

We wish to thank the management and staff for their full cooperation during the audit.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

Copies to:

County administrative Officer
Board of Supervisors
Grand Jury (2)
Audit File
Leyden Hahn, ISD

By: _____
Sheila M. Schneider,
Senior Internal Auditor II

Date Report Distributed: 6/16/03

LDW:BKR:SMS:dlp3

AUDIT REPORT
401 (K) SALARY SAVINGS PLAN
AND
401 (a) DEFINED CONTRIBUTIONS PLAN
FOR THE COUNTY OF SAN BERNARDINO
CALIFORNIA
FOR THE YEAR ENDED DECEMBER 31, 2002

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder
May 23, 2003

**County of San Bernardino
401 (k) Salary Savings Plan
and 401 (a) Defined Contributions Plan**

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COUNTY OF SAN BERNARDINO

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LARRY WALKER

Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK

Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

May 23, 2003

Wally Hill, Co-Chairperson

Defined Contribution Committee
157 West Fifth Street, First Floor
San Bernardino, CA 92415-0440

**SUBJECT: AUDIT OF THE COUNTY OF SAN BERNARDINO'S 401 (k) SALARY
SAVINGS PLAN AND 401 (a) DEFINED CONTRIBUTIONS PLAN FOR
THE YEAR ENDED DECEMBER 31, 2002**

Introductory Remarks

Per your request, we have completed an audit of the County of San Bernardino's 401 (k) Salary Savings Plan and 401 (a) Defined Contributions Plan for the year ended December 31, 2002.

Auditor's Report

We have audited the accompanying statements of net assets available for benefits of the County of San Bernardino's 401 (k) Salary Saving Plan and 401 (a) Defined Contribution Plan as of December 31, 2002, and the related statement of changes in net assets available for benefits for the year ended December 31, 2002. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2002 and 2001, and the changes in net assets available for benefits for the year ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD & A) is not a required part of the basic financial statements but is supplementary information required by accounting principals generally accepted in the United States. The County's management has elected to omit this information.

Larry Walker
Auditor/Controller-Recorder

Copies to:
Marcel Turner, Human Resources,
Director
Robin Ohama, Employee Benefits and
Services, Division Chief
County Administrative Office
Board of Supervisors
Grand Jury (2)
Pamela Thompson, Risk Management,
Division Chief

By: Barbara K. Redding, CPA, CGFM
Manager, Internal Audit Section

Audit File (3)
Date Report Distributed: 6-14-03

LDW:BKR:LGS:spr.1

County of San Bernardino
401 (k) Salary Savings Plan
and 401 (a) Defined Contributions Plan
Statement of Net Assets Available for Benefits
December 31, 2002

	<u>401 (k) Salary Savings Plan</u>	<u>401 (a) Defined Contributions Plan</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents (See Note 3)	\$ -	\$ 145,892	\$ 145,892
Investments at contract value (See Note 4)	32,352,373		32,352,373
Loans Receivable (See Note 5)	1,329,836		1,329,836
Receivables:			
Employer contributions	129,992	2,646	132,638
Participant contributions	<u>219,342</u>	<u>-</u>	<u>219,342</u>
Total receivables	<u>349,334</u>	<u>2,646</u>	<u>351,980</u>
 Total assets	 <u>34,031,543</u>	 <u>148,538</u>	 <u>34,180,081</u>
 LIABILITIES			
Accrued expenses (See Note 6)	<u>(14,322)</u>	<u>-</u>	<u>(14,322)</u>
Total liabilities	<u>(14,322)</u>	<u>-</u>	<u>(14,322)</u>
 Net assets available for benefits	 <u><u>\$ 34,045,865</u></u>	 <u><u>\$ 148,538</u></u>	 <u><u>\$ 34,194,403</u></u>

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
401 (k) Salary Savings Plan
and 401 (a) Defined Contributions Plan
Statement of Changes in Net Assets Available for Benefits
For The Year Ended December 31, 2002

	401 (k) Salary Savings Plan	401 (a) Defined Contributions	Total
Additions			
Additions to net assets attributed to:			
Investment income (loss):			
Net decrease in contract value of investments	\$ (6,616,037)	\$ -	\$ (6,616,037)
Interest	152,160		152,160
Interest	-	4,099	4,099
Contributions:			
Participant	2,845,248	-	2,845,248
Employer	2,532,285	31,230	2,563,515
	<u>5,377,533</u>	<u>31,230</u>	<u>5,408,763</u>
Total contributions			
	<u>5,377,533</u>	<u>31,230</u>	<u>5,408,763</u>
Loan Re-Payments:			
Principal	493,806		493,806
Interest	96,615		96,615
	<u>590,421</u>	<u>-</u>	<u>590,421</u>
Total additions	(495,923)	35,329	(460,594)
Deductions			
Deductions from net assets attributed to:			
Benefits paid to participants	1,789,870	-	1,789,870
Loans Issued	563,502	-	563,502
Administrative expenses	59,502	-	59,502
	<u>2,412,874</u>	<u>-</u>	<u>2,412,874</u>
Total deductions			
	<u>2,412,874</u>	<u>-</u>	<u>2,412,874</u>
Net assets available for benefits:			
Beginning of year	36,954,662	113,209	37,067,871
End of year	<u>\$ 34,045,865</u>	<u>\$ 148,538</u>	<u>\$ 34,194,403</u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
County of San Bernardino 401 (k) Salary Savings Plan
and 401 (a) Defined Contributions Plan
Notes to the Financial Statements
December 31, 2002**

NOTE 1: DESCRIPTION OF PLAN

The following description of the Plan's provides only general information. Participants should refer to the Plan Agreements for a more complete description of the Plan's provisions.

A. The San Bernardino County 401 (k) Salary Savings Plan:

1. *General* – The Plan is a defined contribution plan covering employee's in the exempt occupational unit, elected officials, contract employees - whose contract authorizes participation in the Plan, or any other employee who is deemed an eligible employee by the County's Board of Supervisors. The Plan is not subject to the provisions of the Employee Retirement Income Security Act (ERISA).
2. *Contributions* – Participants may contribute an amount not in excess of \$11,000. Bi-weekly participant contributions are matched by an employer contribution on the basis of two times a participant's contributions up to three percent of the bi-weekly base salary with a maximum matching contribution of six percent of the participant's bi-weekly base salary. Participants direct the investment of their contributions into mutual funds and/or fixed investment options offered by the Plan.
3. *Participant Accounts* – Each participant's account is credited with the participant's contribution, employer match, Plan earnings and interest, and is charged with losses and administrative expenses.
4. *Vesting* – A participant's account in the Plan is immediately vested with initial deposit and non-forfeitable at all times.
5. *Participant Loans* – With the approval of the Plan administrator and 12 months of participation, a participant may elect to borrow a portion of their account. Participants may borrow a minimum of \$1,000 up to a maximum that is equal to the lesser of \$50,000 or 50 percent of their account balance, whichever is less. The loan is secured by the balance in the participant's account. Principal and interest is paid ratably through bi-weekly payroll deductions.
6. *Payment of Benefits* – Upon retirement, termination of employment, or attainment of age 70 ½, a participant may elect the following:
 - A single lump sum payment.
 - Installment payments.
 - Defer Benefits.

**County of San Bernardino
County of San Bernardino 401 (k) Salary Savings Plan
and 401 (a) Defined Contributions Plan
Notes to the Financial Statements
December 31, 2002**

NOTE 1: DESCRIPTION OF PLAN - Continued

B. The San Bernardino County 401 (a) Defined Contributions Plan:

1. *General* – The Plan is a defined contribution plan that covers an elected County official serving on the Board of Supervisors, as a County Department Head, or a County contract employee who's Board approved contract specifies that the employee is eligible. It is not subject to the provisions of the Employee Retirement Income Security Act (ERISA).
2. *Contributions* – The County contributes five percent of the participant salary.
3. *Participant Accounts* – Each participant's account is credited with the employer contribution and interest income.
4. *Vesting* – A participant's account in the Plan shall be vested and non-forfeitable at all times.
5. *Participant Loans* – With the approval of the Plan administrator and 12 months of participation, a participant may elect to borrow a portion of their account. Participants may borrow a minimum of \$1,000 up to a maximum that is equal to the lesser of \$50,000 or 50 percent of their account balance, whichever is less. The loan is secured by the balance in the participant's account. Principal and interest is paid ratably through bi-weekly payroll deductions.
6. *Payment of Benefits* – Upon retirement, termination of employment, the fifth anniversary of the year in which the participant commenced participation in the plan, or death, a participant or beneficiary may elect to receive the following:
 - A single lump sum payment.
 - Installment payments.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Plan's are prepared under the accrual method of accounting.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. Actual results could differ from those estimates.

**County of San Bernardino
County of San Bernardino 401 (k) Salary Savings Plan
and 401 (a) Defined Contributions Plan
Notes to the Financial Statements
December 31, 2002**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investment Valuation and Income Recognition

The Plan's investments are stated at contract value. Contract value represents contributions made under the contract, plus earnings, less participant withdrawals and administrative expenses. Shares of mutual funds are valued at the net asset value of shares for the beginning and ending valuation period and the difference represent the net increase (decrease) in the earnings of the contract value of the mutual fund.

Payment of Benefits

In accordance with generally accepted accounting procedures, benefits are recorded when paid as Benefits Paid to Participants.

NOTE 3: CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the Plan's account based upon the Plan's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of December 31, 2002.

NOTE 4: INVESTMENT CONTRACT WITH INSURANCE COMPANY

In September 1996, the County entered into an investment contract (contract number 777003) with Aetna Life Insurance and Annuity Company (ALIAC). ALIAC maintains contributions in a pooled separate account and a general account. The pooled separate account represents a special account established by ALIAC solely for the purpose of investing the assets of one or more plans in mutual funds. Funds in the separate account are not commingled with other assets for investment purposes and the assets cannot be used to satisfy ALIAC debts.

The Plan's share of the pooled separate account is determined on a participant-unit basis. The Contract's value is determined by multiplying the pooled separate account net asset value by the number of Contract participation units.

**County of San Bernardino
County of San Bernardino 401 (k) Salary Savings Plan
and 401 (a) Defined Contributions Plan
Notes to the Financial Statements
December 31, 2002**

NOTE 4: INVESTMENT CONTRACT WITH INSURANCE COMPANY - Continued

The general account represents a fixed account maintained by ALIAC that commingles plan assets with other assets of ALIAC for investment purposes. The interest rate is based on a formula agreed upon with the issuer, but may not be less than 3%.

The Contract is included in the financial statements at contract value as reported to the County by ALIAC.

NOTE 5: LOANS RECEIVABLE

At December 31, 2002, loans receivable were composed of loans to participants.

NOTE 6: ACCRUED EXPENSES

At December 31, 2002, accrued expenses were composed of administrative fees.

NOTE 7: TAX STATUS

On March 17, 2000 and January 17, 2001, the Internal Revenue Service made a determination that the 401 (k) Salary Savings Plan and the 401 (a) Defined Contribution Plan, respectively, is designed in accordance with applicable sections of the Internal Revenue Code.

NOTE 8: SUBSEQUENT EVENT

On April 29, 2003, the San Bernardino County Board of Supervisor's approved a new administrative services agreement between the County and ING Life Insurance and Annuity Company (ING) for investment and administrative services for the County's 401 (k) and 401 (a) defined contribution plans. With this new agreement, ING will assume recordkeeping responsibilities for the 401 (a) defined contribution plan. The new contract is effective May 15, 2003.

AUDIT REPORT
DEFERRED COMPENSATION PLANS
FOR THE COUNTY OF SAN BERNARDINO
CALIFORNIA
FOR THE YEAR ENDED DECEMBER 31, 2002

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder
May 23, 2003

County of San Bernardino
Deferred Compensation Plan, Deferred PST Compensation Retirement
Plan, and Section 457 (f) Deferred Compensation Plan

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AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

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RECORDER • COUNTY CLERK • 222 West Hospitality Lane, First Floor
San Bernardino, CA 92415-0022 • (909) 387-8306 • Fax (909) 386-8940

LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

May 23, 2003

Wally Hill, Co-Chairperson
Defined Contribution Committee
157 West Fifth Street, First Floor
San Bernardino, CA 92415-0440

**SUBJECT: AUDIT OF THE COUNTY OF SAN BERNARDINO'S DEFERRED
 COMPENSATION PLAN, DEFERRED PST COMPENSATION
 RETIREMENT PLAN, AND SECTION 457 (f) DEFERRED
 COMPENSATION PLAN FOR THE YEAR ENDED DECEMBER 31,
 2002**

Introductory Remarks

Per your request, we have completed an audit of the County of San Bernardino's Deferred Compensation Plan, Deferred PST Compensation Retirement Plan, and Section 457 (f) Deferred Compensation Plan for the year ended December 31, 2002.

Auditor's Report

We have audited the accompanying statements of net assets available for benefits of the County of San Bernardino's Deferred Compensation Plan, Deferred PST Compensation Retirement Plan, and Section 457 (f) Deferred Compensation Plan (the Plans) as of December 31, 2002, and the related statement of changes in net assets available for benefits for the year ended December 31, 2002. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the

amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plans as of December 31, 2002, and the changes in net assets available for benefits for the year ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD & A) is not a required part of the basic financial statements but is supplementary information required by accounting principals generally accepted in the United States. The County's management has elected to omit this information.

Larry Walker
Auditor/Controller-Recorder

Copies to:
Marcel Turner, Human Resources,
Director
Robin Ohama, Employee Benefits and
Services, Division Chief
County Administrative Office
Board of Supervisors
Grand Jury (2)
Pamela Thompson Risk Management,
Division Chief

By: Barbara K. Redding
Barbara K. Redding, CPA, CGPM
Manager, Internal Audit Section

Audit File (3)
Date Report Distributed: 6-16-03

LDW:BKR:LGS:spr.1

County of San Bernardino
Deferred Compensation Plan, Deferred PST
Compensation Retirement Plan, and Section 457 (f) Deferred
Compensation Plan
Statement of Net Assets Available for Benefits
December 31, 2002

	Deferred Compensation Plan	Deferred PST Compensation Retirement Plan	Section 457 (f) Deferred Compensation Plan	Total
ASSETS				
Investments at contract value (See Note 3)	\$ 186,311,041	\$ 21,294,757	\$ 404,881	\$ 208,010,679
Receivables:				
Employer contributions	-	215,491	1,863	217,354
Participant contributions	1,081,922	-	-	1,081,922
Total receivables	1,081,922	215,491	1,863	1,299,276
 Total assets	 187,392,963	 21,510,248	 406,744	 209,309,955
LIABILITIES				
Accrued expenses (See Note 4)	(702)	(19,390)	-	(20,092)
Total liabilities	(702)	(19,390)	-	(20,092)
 Net assets available for benefits	 \$ 187,393,665	 \$ 21,529,638	 \$ 406,744	 \$ 209,330,047

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
Deferred Compensation Plan, Deferred PST
Compensation Retirement Plan, and Section 457 (f) Deferred
Compensation Plan
Statement of Changes in Net Assets Available for Benefits
For The Year Ended December 31, 2002

	Deferred Compensation Plan	Deferred PST Compensation Retirement Plan	Section 457 (f) Deferred Compensation Plan	Total
Additions				
Additions to net assets attributed to:				
Investment income (loss):				
Net decrease in contract value of investments	\$ (22,588,740)	\$ 783,259	\$ (79,914)	\$ (21,885,395)
Contributions:				
Participant	23,040,874	4,686,513	59,240	27,786,627
Plan to plan transfers	844,766	-	-	844,766
Total contributions	23,885,640	4,686,513	59,240	28,631,393
Total additions	1,296,900	5,469,772	(20,674)	6,745,998
Deductions				
Deductions from net assets attributed to:				
Benefits paid to participants	9,312,694	1,942,816	72,427	11,327,937
Plan to plan transfers	2,538,697	860,208	-	3,398,905
Administrative expenses	130,041	73,939	240	204,220
Total deductions	11,981,432	2,876,963	72,667	14,931,062
Net assets available for benefits:				
Beginning of year	198,078,197	18,936,829	500,085	217,515,111
End of year	<u>\$ 187,393,665</u>	<u>\$ 21,529,638</u>	<u>\$ 406,744</u>	<u>\$ 209,330,047</u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Deferred Compensation Plan, Deferred PST
Compensation Retirement Plan, and Section 457 (f) Deferred
Compensation Plan
Notes to the Financial Statements
December 31, 2002**

NOTE 1: DESCRIPTION OF PLAN

The following description of the Deferred Compensation Plans (the Plans) provides only general information. Participants should refer to the Plan Agreements for a more complete description of the Plan's provisions.

A. San Bernardino County Deferred Compensation Plan:

1. *General* – The Plan is a defined contribution plan covering all full-time and part-time regular employees, elected officials, Board Governed Special District employees, or all full-time or part-time “regular” employees of the Superior Court. The primary purpose of the Plan is to permit employees of the County of San Bernardino and certain other persons to enter into an agreement which will provide the deferral of a portion of their current compensation until retirement, termination of employment, death, or other event in accordance with the provisions of Section 457 of the Internal Revenue Code of 1986. It is not subject to the provisions of the Employee Retirement Income Security Act (ERISA).
2. *Contributions* – For calendar year 2002, participants may defer the lesser of up to \$11,000 or 100% of the participant's net compensation. Participants direct the investment of their contributions into various investment options offered by the Plan.
3. *Participant Accounts* – Each participant's account is credited with contributions, Plan earnings, and interest, and is charged with losses and administrative expenses.
4. *Vesting* – Participants are vested immediately in their contributions plus actual earnings thereon.
5. *Plan-To-Plan Transfers* – The Plan will accept funds from other eligible Plans and amounts deferred by a former participant may be transferred to another eligible plan.
6. *Payment of Benefits* – Upon retirement, termination of employment, or attainment of age 70 ½ (whether or not still employed) a participant may elect to receive the following:
 - A lump sum payment.
 - Installment payments.
 - An annuity.
 - A specific amount monthly until funds are depleted.
 - Defer benefits.

**County of San Bernardino
Deferred Compensation Plan, Deferred PST
Compensation Retirement Plan, and Section 457 (f) Deferred
Compensation Plan
Notes to the Financial Statements
December 31, 2002**

NOTE 1: DESCRIPTION OF PLAN - Continued

In the event of the participant's death, the full amount credited to their account, shall be distributed based on one of the following:

- If distribution has commenced prior to the death of the participant, the balance of their account shall be paid to the beneficiary in accordance with the payment option already selected by the participant.
- If the distribution has not commenced prior to the death of the participant, a spousal beneficiary may elect a single-sum payment or a distribution payable over a period not extending beyond the life expectancy of the spousal beneficiary.

B. County of San Bernardino Deferred PST Compensation Retirement Plan:

1. *General* – The Plan is a defined contribution plan that covers all employees who are not regular employees and who are not members of the San Bernardino County Employees' Retirement Associations or a participant of the County's 401 (k) Salary Savings Plan. Effective July 1, 1991, the Omnibus Budget Reconciliation Act of 1990 subjects service performed by state and local government employees who are not members of a retirement system to Social Security taxes. The Treasury Department issued regulations that permit participation in a Deferred Compensation Program as an alternative to Social Security taxes. To qualify the Plan is required to allocate at least 7.5 percent of a participant's annual compensation into the participant's account. The Plan provides a fixed interest rate investment fund. The Plan is not subject to the provisions of the Employee Retirement Income Security Act (ERISA).
2. *Contributions* – The County contributes 2-1/2 percent of the employee's salary and the employee contributes 5 percent of their salary, up to the Social Security Maximum of \$84,900.
3. *Participant Accounts* – Each participant's account is credited with the contributions, earnings and gains, and is charged with losses and administrative expenses.
4. *Vesting* – Participants are vested immediately with initial contributions.
5. *Termination of Employment* – Upon termination of a participant's employment, any agreement to defer compensation will be deemed to have been revoked.
6. *Plan-To-Plan Transfers* – The Plan will accept funds from other eligible Deferred Compensation Plans and amounts deferred by a former participant may be transferred to another eligible plan.

County of San Bernardino
Deferred Compensation Plan, Deferred PST
Compensation Retirement Plan, and Section 457 (f) Deferred
Compensation Plan
Notes to the Financial Statements
December 31, 2002

NOTE 1: DESCRIPTION OF PLAN - Continued

7. *Payment of Benefits* – Upon termination of employment, a participant may elect to receive the following when the participant's account is \$3,500 or more:

- A single lump sum payment.
- Installment payments.

Participant's account less than \$3,500 will be distributed in a lump sum.

C. County of San Bernardino Section 457 (f) Deferred Compensation Plan:

1. *General* – The Plan is a defined contribution plan covering any employee in the exempt occupational unit, elected officials, or Board Governed Special District employees entitled to exempt benefits. The Plan provides participants the opportunity to contribute an unlimited portion of their annual compensation before State and Federal taxes are withheld, provided the deferred amounts are subject to a substantial risk of forfeiture. Substantial risk of forfeiture requires that the participant continue to provide employment services to the County and the participant would forfeit the deferred compensation amounts if they terminated employment prior to the completion of their requisite period of service. The Plan not subject to the provisions of the Employee Retirement Income Security Act (ERISA).
2. *Contributions* – Each year the participant may defer an unlimited amount of their annual compensation. In addition, each Plan year at the sole and absolute discretion of the Board of Supervisors, the County may determine to make a contribution to the Plan on behalf of any participant.
3. *Participant Accounts* – Each participant's account consists of an employee subaccount and a County contribution subaccount. Each subaccount is credited with earnings and gains (or losses) and charged for any administrative expenses.
4. *Payment of Benefits* – The distribution of benefits for the employee deferral subaccount is as follows:
 - A lump sum payment.
 - Defer benefits.

In the event of a participant's voluntary termination of service with the County, or a termination for cause by the County, prior to the expiration of the applicable deferral period, employee compensation credited to the participant's employee subaccount shall be forfeited.

**County of San Bernardino
Deferred Compensation Plan, Deferred PST
Compensation Retirement Plan, and Section 457 (f) Deferred
Compensation Plan
Notes to the Financial Statements
December 31, 2002**

NOTE 1: DESCRIPTION OF PLAN - Continued

In the event of death, disability, retirement or termination of employment by the County (other than a termination for cause), all amounts in the participant's employee subaccount shall be distributed to the participant or beneficiary.

Distribution of benefits for the County Contribution subaccount for retirement, death, or termination of employment by reason of disability is paid in a lump sum.

In the event of a participant's termination of employment for any reason other than retirement, death, or disability, all amounts in the participant's County Contribution Subaccount shall be forfeited.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Plan's financial statements are prepared under the accrual method of accounting.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. Actual results could differ from those estimates.

Investment Valuation and Income Recognition

The Plan's investments are stated at contract value. Contract value represents contributions made under the contract, plus earnings, less participant withdrawals and administrative expenses. Shares of mutual funds are valued at the net asset value of shares for the beginning and ending valuation period and the difference represent the net increase (decrease) in the earnings of the contract value of the mutual fund.

Payment of Benefits

In accordance with generally accepted accounting procedures, benefits are recorded when paid as Benefits Paid to Participants.

**County of San Bernardino
Deferred Compensation Plan, Deferred PST
Compensation Retirement Plan, and Section 457 (f) Deferred
Compensation Plan
Notes to the Financial Statements
December 31, 2002**

NOTE 3: INVESTMENT CONTRACT WITH INSURANCE COMPANY

A. San Bernardino County Deferred Compensation Plan:

In July 2001, the Plan entered into two investment contracts (contract numbers (V) K 2044 and (V) K 2051) with Aetna Life Insurance and Annuity Company (ALIAC). ALIAC maintains contributions in a pooled separate account and a general account. The pooled separate account represents a special account established by ALIAC solely for the purpose of investing the assets of one or more plans in mutual funds. Funds in the separate account are not commingled with other assets for investment purposes and the assets cannot be used to satisfy ALIAC debts.

The general account represents a fixed account maintained by ALIAC that commingles plan assets with other assets of ALIAC for investment purposes. The interest rate is based on a formula agreed upon with the issuer, but may not be less than 3%.

The Contract is included in the financial statements at contract value as reported to the County by ALIAC.

B. County of San Bernardino Deferred PST Compensation Retirement Plan:

In July 2001, the Plan entered into an investment contract (contract number (V) K 2045) with Aetna Life Insurance and Annuity Company (ALIAC). ALIAC maintains the Contract's contributions in a general account. The general account represents a fixed account maintained by ALIAC that commingles plan assets with other assets of ALIAC for investment purposes. The interest rate is based on a formula agreed upon with the issuer, but may not be less than 4%.

The Contract is included in the financial statements at contract value as reported to the County by ALIAC.

C. County of San Bernardino Section 457 (f) Deferred Compensation Plan:

In December 1993, the Plan entered into an investment contract (contract number (V) K 2047) with Aetna Life Insurance and Annuity Company (ALIAC). ALIAC maintains contributions in a pooled separate account and a general account. The pooled separate account represents a special account established by ALIAC solely for the purpose of investing the assets of one or more plans in mutual funds. Funds in the separate account are not commingled with other assets for investment purposes and the assets cannot be used to satisfy ALIAC debts.

**County of San Bernardino
Deferred Compensation Plan, Deferred PST
Compensation Retirement Plan, and Section 457 (f) Deferred
Compensation Plan
Notes to the Financial Statements
December 31, 2002**

NOTE 3: INVESTMENT CONTRACT WITH INSURANCE COMPANY - Continued

The general account represents a fixed account maintained by ALIAC that commingles plan assets with other assets of ALIAC for investment purposes. The interest rate is based on a formula agreed upon with the issuer, but may not be less than 3%.

The Contract is included in the financial statements at contract value as reported to the County by ALIAC.

NOTE 4: ACCRUED EXPENSES

At December 31, 2002, accrued expenses were composed of administrative fees.

NOTE 5: SUBSEQUENT EVENT

On April 29, 2003, the San Bernardino County Board of Supervisor's approved a new administrative services agreement between the County and ING Life Insurance and Annuity Company (ING) for investment and administrative services for the County's 457 (f) and 457 (b) defined contribution plans. The new contract is effective May 15, 2003.

AUDIT REPORT
RETIREMENT MEDICAL PLAN
FOR THE COUNTY OF SAN BERNARDINO
CALIFORNIA
FOR THE YEAR ENDED DECEMBER 31, 2002

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder
May 23, 2003

**County of San Bernardino
Retirement Medical Plan**

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COUNTY OF SAN BERNARDINO

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

May 23, 2003

Robin Ohama, Plan Administrator
Retirement Medical Plan
157 West Fifth Street, First Floor
San Bernardino, CA 92415-0440

**SUBJECT: AUDIT OF THE COUNTY OF SAN BERNARDINO'S RETIREMENT
MEDICAL PLAN FOR THE YEAR ENDED DECEMBER 31, 2002**

Introductory Remarks

Per your request, we have completed an audit of the County of San Bernardino's Retirement Medical Plan for the year ended December 31, 2002.

Auditor's Report

We have audited the accompanying statements of net assets available for benefits of the County of San Bernardino's Retirement Medical Plan (the Plan) as of December 31, 2002, and the related statement of changes in net assets available for benefits for the year ended December 31, 2002. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2002, and the changes in net assets available for benefits for the year ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD & A) is not a required part of the basic financial statements but is supplementary information required by accounting principals generally accepted in the United States. The County's management has elected to omit this information.

Larry Walker
Auditor/Controller-Recorder

Copies to:

Marcel Turner, Human Resources,
Director
County Administrative Office
Board of Supervisors
Grand Jury (2)
Pamela Thompson, Risk Management,
Division Chief

By:

Barbara K. Redding, CPA, CGFM
Manager, Internal Audit Section

Audit File (3)

Date Report Distributed: 6-16-03

LDW:BKR:LGS:spr.1

**County of San Bernardino
Retirement Medical Plan
Statement of Net Assets Available for Benefits
December 31, 2002**

ASSETS

Cash and cash equivalents (See Note 3)	\$ 1,850,063
Receivables:	
Interest	14,547
Employer contributions	<u>6,685</u>
Total receivables	<u>21,232</u>
 Total assets	 <u>1,871,295</u>

LIABILITIES

Total liabilities	<u>-</u>
 Net assets available for benefits	 <u><u>\$ 1,871,295</u></u>

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
Retirement Medical Plan
Statement of Changes in Net Assets Available for Benefits
For The Year Ended December 31, 2002

Additions

Additions to net assets attributed to:

Interest	\$ 66,284
Employer contributions	140,304
Sick leave contributions	334,987

Total additions	541,575
-----------------	---------

Deductions

Deductions from net assets attributed to:

Benefits paid to participants	223,966
Disability retirements	89,329

Total deductions	313,295
------------------	---------

Net assets available for benefits:

Beginning of year	1,643,015
End of year	\$ 1,871,295

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Retirement Medical Plan
Notes to the Financial Statements
December 31, 2002**

NOTE 1: DESCRIPTION OF PLAN

The following description of the County of San Bernardino's Retirement Medical Plan (the Plan) provides only general information. Participants should refer to the Plan Agreements for a more complete description of the Plan's provisions.

1. *General* – The Plan is a defined contribution plan covering employees with ten or more years of participation in the San Bernardino County Employees' Retirement Association in the following occupational units: Safety Management, Supervisory, Exempt, and elected officials. The Plan is not subject to the provisions of the Employee Retirement Income Security Act (ERISA).
2. *Contributions* – Biweekly, the County contributes one-half of one percent of an eligible employee's salary and one percent of an elected official's salary to the Plan. At retirement, all eligible employees are required to contribute their unused sick leave balances to the Plan. On the employee's behalf, the County contributes the cash value based on a cash value formula that is determined by the balance of the employee's sick leave.
3. *Participant Accounts* – Each participant's account is credited with the County's contribution, interest and charged with qualified medical expenses.
4. *Vesting* – A participant's account in the Plan shall be vested upon initial deposit and non-forfeitable at all times.
5. *Payment of Benefits* – Each participant's account is used to pay for health care expenses as defined in Internal Revenue Code Section 213(d)(1). The Plan's obligations are limited to the value of the participant's contributions and earnings.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Plan's financial statements are prepared under the accrual method of accounting.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. Actual results could differ from those estimates.

Payment of Benefits

In accordance with generally accepted accounting procedures, benefits are recorded when paid as Benefits Paid to Participants.

**County of San Bernardino
Retirement Medical Plan
Notes to the Financial Statements
December 31, 2002**

NOTE 3: CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the Plan's account based upon the Plan's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of December 31, 2002.

NOTE 4: TAX STATUS

The Trust established under the Plan is qualified pursuant to Section 501 (c) 9 of the Internal Revenue Code, and, accordingly, the Trust's net investment income is exempt from income taxes. The Sponsor has obtained a favorable tax determination letter from the Internal Revenue Service dated April 2, 2002.

AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

August 9, 2002

Marcel Turner, Director of Human Resources
Civic Center Building
157 West Fifth Street
San Bernardino, CA 92415-0440

**SUBJECT: AUDIT OF RISK MANAGEMENT'S CLAIMS PROCESSING OF
LIABILITY AND WORKERS' COMPENSATION CLAIMS**

Introductory Remarks

In compliance with the Memorandum of Understanding, dated August 23, 1991, we have completed a periodic review of controls over claims processing of Liability and Workers' Compensation claims, in accordance with the standards developed by the Institute of Internal Auditors.

Scope of Audit

The purpose of this audit is to review control procedures over Liability and Workers' Compensation Claims used by Risk Management, and to determine that controls were adequate to allow periodic audits of samples of claims instead of auditing all Liability and Workers' Compensation Claims. Our review was limited to the system of internal controls and procedures related to Liability and Workers' Compensation Claims for the period January 1, 2001 through December 31, 2001. We tested 60 Liability Claims and 60 Workers' Compensation Claims for compliance with department policies and procedures.

Results of Audit

The audit was discussed with Risk Management at an Exit Conference on May 23, 2002, and additional time was requested and granted for the auditee to locate various missing items. A draft report was subsequently sent to Risk Management on June 19, 2002. Responses to the recommendations received on August 7, 2002 are included in the report.

Our study and evaluation of the system of internal controls would not necessarily disclose all material weaknesses in the system. We did however note conditions that require the attention of management. These are discussed under the Current Year's Findings and Recommendations Section below.

STATUS OF PRIOR YEAR'S FINDINGS AND RECOMMENDATIONS

Finding 1: Reconciliations of the Liability and Workers' Compensation Funds were last performed in October 1999 and July 2000, respectively.

Prior Recommendation

Review the adequacy of resources assigned to the reconciliation process and provide additional training to the assigned staff.

Current Status

Partially implemented. Reconciliation of the Workers' Compensation Funds is current. As of May 23, 2002, reconciliation of the Liability Funds had not been performed since July 2000.

Further Recommendation

Comply with prior recommendation.

Auditee's Response:

As of today, the reconciliations for the Liability Funds are complete through May of 2001. The fiscal clerk in charge of this task is currently working on June of 2001; additional staff is working on several months through December of 2001.

CURRENT YEAR'S FINDINGS AND RECOMMENDATIONS

Finding 1: Variances documented during the reconciliation of the Workers' Compensation Fund were not always researched and identified.

The reconciliation process requires that the total dollar difference between the County's Financial Accounting System (FAS) and the Claims Processing System at month end be traced to individual transactions. This step is sometimes omitted. For example, the November 2001 Workers' Compensation Fund Reconciliation recognizes a total variance of \$52,422.14. Of this amount, \$25,809.16 is attributed to a "possible batch rejection" in object code 2605, but staff could not verify and/or support this claim and written guidelines were not provided to identify required follow-up action. Unresolved variances compromise the reliability of information provided, and this in turn could compromise the overall integrity and status of the agency's financial position.

Recommendations

Establish and implement procedures to ensure that all variances are researched, identified, and traceable to supporting documents. Prepare written procedures to direct and document the reconciliation process.

Auditee's Response

The staff in our Fiscal Section has limited training in this area due to rapid employee turnover. Procedures are currently being revised by the newly hired Accountant I. This same position will be responsible for making sure all variances are identified and resolved to ensure compliance.

Finding 2: Discrepancies identified between the accounting systems during the reconciliation process were not resolved.

The monthly reconciliation of Risk Management's Claims Processing System to the FAS is a key internal control. If properly utilized, monthly reconciliations serve to ensure the integrity and accuracy of financial data, as well as help provide an accurate measure of the full cost of the County's programs. However, discrepancies between the Claims Processing System and the FAS were not always corrected, even when identified. Employees performing reconciliations do not have written procedures and guidelines in place nor are the format and details of the reconciliation report adequate. In addition, not one of the twelve reconciliations for calendar year 2001 indicated an independent review.

Recommendation

Prepare written operating procedures to direct and document the reconciliation process. Re-format the completed reconciliation report to include, at a minimum, the date prepared, preparer, and reviewer. Designate an employee not involved in the preparation to review and sign the agency's monthly reconciliation and to monitor completion of follow-up adjustments. Provide training to all staff involved.

Auditee's Response

The reconciliations were used/reviewed by the Risk Manager prior to the preparation of the Annual Report that is sent to the Board of Supervisors. As in Finding 1, the newly hired Accountant I will be responsible to implement this audit recommendation and monitor all follow-up adjustments. The Accountant I will initial and date each reconciliation after the review is complete. Procedure manuals exist for this section and are being updated and will be distributed to the Fiscal Clerks by the Accountant I.

Finding 3: The controls in place to detect irregularities between the FAS and the Claims Processing System were insufficient.

A system of effective checks and balances is a necessary element of any accounting and control system and helps provide the needed level of confidence in the accuracy of financial systems. However, controls designed to detect irregularities between the FAS and the Claims Processing System did not operate as intended. For example, the adjustment for Warrant #8662889 for \$412.50 was not processed on the Claims Processing System, while another adjustment for Warrant #8706392 was input twice.

Recommendation

Staff involved in processing adjustments need to be thoroughly trained in the process so that they have a clear understanding of their responsibilities. A periodic review by management will ensure controls are operating as intended.

Auditee's Response

The fiscal clerks that perform these tasks have been trained several times on this task. The Automated Systems Analyst I frequently monitors the posting of adjustments, especially when preparing ad-hoc reports to make sure data integrity has not been compromised. She is constantly bringing to the clerks' attention errors that need to be corrected. A monthly review of this task will be performed by the Accountant I.

Finding 4: The procedure for coding reconciliation adjustments were not consistently followed.

Adjustments for seven out of fourteen cancellations, two out of five stop payments, and four out of ten stale dates were coded incorrectly on the Claims Processing System. Since Risk Management transmits information from its Claims Processing System to the FAS, it is vital that coding instructions are followed. The employee responsible for inputting these adjustments into the Claims Processing System has a written list for coding cancellations, stop payments, and stale dates. Adjustments need to be processed correctly to reflect the corresponding adjustments on the FAS.

Recommendation

Reiterate to staff the need to follow established guidelines for coding transactions to reflect corresponding adjustments on the FAS. Conduct periodic supervisory review of work performed.

Auditee's Response

As mentioned above in the response to Finding 3, many errors have already been caught by the staff responsible for data integrity, and a monthly review of adjustments will be conducted by the Accountant I in the future.

Finding 5: Requested adjustments were not processed in a timely manner.

The agency's adjusters forwarded requests for adjustments to the Fiscal Section for processing. These adjustments were required to correct previously entered transactions. However, requested adjustments were not processed in a timely manner. Four of the fourteen cancellation requests tested were processed more than two months after requested. Only two items were clearly processed within 30 days of the original request. Six of the remaining eight cancellation requests did not include the date requested by the adjuster. Others were missing initials. In-house Standard Practice Documentation require staff to "record the transaction number, date and ... initials on source document(s) to complete the audit trail."

Recommendation

Document and disseminate timeframes for processing adjustments, including those requiring exception processing. In addition, conduct periodic supervisory reviews of source documents to encourage staff to comply with established requirements.

Auditee's Response

A new procedure was drafted on April 5, 2002, that spells out the requirements for a cancellation request which now include a timeframe for completion.

Finding 6: Requests for stop payments and/or cancellations were sent to the Auditor/Controller-Recorder (ACR) after the related warrants stale dated.

Warrant # 8089418 was recorded as stale dating on 4/14/01, but a cancellation request was sent to ACR three months after the warrant's stale date. Another stop payment request was sent to the ACR on 6/27/01 for Warrant # 8607128 and a cancellation request was sent for the same warrant on 7/26/01. The stop payment request was not processed on the Claims Processing System until the date of the cancellation request. Further, when a warrant is stale dated, it cannot be cancelled at a later date. ACR staff stated that redundant requests were often received for the same warrant. This process is an inefficient use of resources.

Recommendation

Inform fiscal clerks, in writing, that when a warrant has been automatically stale dated in the FAS, the only required adjustment is to the (in-house) Claims Processing System. An effective means of updating the Claims Processing System for stale dated warrants needs to be implemented.

Auditee's Response

The procedure for this task is being refined by the Accountant I. ACR staff provides a monthly report of stale dated warrants only if they exceed \$500.00. The Treasurer's Office has recently granted access to Risk Management's staff to view the stale dated warrants, (through DB2). From now on we will be able to check on a weekly basis.

Finding 7: Several paid invoices were not cancelled.

Fiscal clerks were required to physically stamp each invoice 'paid' and to record the batch number, transaction number, claim number, date sent, and initials on each invoice. Several paid invoices for both Liability and Workers' Compensation Claims were not cancelled. The cancellation process was instituted to prevent re-submission of an invoice for payment when it had already been paid.

Recommendation

Remind Fiscal staff to cancel invoices at the time of processing.

Auditee's Response

An additional review step will be required from now on. The Accounting Technician will be responsible for making sure all invoices are stamped/cancelled.

Finding 8: Vital liability claim documents could not be located.

Payments were made in cases where vital supporting documents were not on file. Cancelled invoices for four liability claims could not be located; two executed release from liability documents could not be located; and two files lacked evidence of the required Board approval. Some of these files contained the Closure Checklist indicating required documents had been received and processed.

Recommendation

Establish a process for ensuring that all documentation necessary to establish approval of payments is received and filed. Remind staff to ensure documents

have been physically received and placed in the files before completing the related checklist item.

Auditee's Response

We continue to seek ways to ensure cancelled invoices are returned to the appropriate files. In spite of our efforts, some of these documents are either not received or are misfiled. The liability unit clerical staff will be instructed to periodically coordinate with the fiscal unit staff to determine whether all cancelled liability payment documents are flowing to the liability unit. Once the documents are received, we will make a heightened effort to ensure they are properly and timely filed.

The claim file closure checklist should be a sufficient control to ensure the release documents are filed. Claims representatives will be reminded to make sure the executed release document is in the file before indicating on the checklist that the document is there.

We currently have two documents evidencing the taking of a claim to the Board for closed session settlement approval: (1) request for closed session and (2) memo of Board approval from the defense counsel. Both of these documents should be in the claim file. The clerical staff and claims representatives will be instructed to ensure the placement of these two documents into the claim file.

Finding 9: Documents were missing from Workers' Compensation claimants' files.

Documentation required to establish the validity of one claim could not be located. Payment documentation (including cancelled invoices) for five claimants could not be located. Maintaining the appropriate supporting documentation in each claimant's file provides evidence that payment is being made in the appropriate manner.

Recommendation

Re-examine current procedures and incorporate measures to ensure all required documentation is placed in claim files.

Auditee's Response

We concur with proposed recommendations and will review our filing procedures and will make sure the Clerk II is aware of the importance of filing documents in the correct files.

Finding 10: Controls in place for over-rides were not consistently followed.

Control features within the Claims Processing System caused transactions to be rejected. If these transactions were then determined to be valid, a Supervisor Override Password (called a "T" override) was required to process these items. Access to this override execution was limited to four section supervisors and was user ID and password controlled. However, supervisory approval for two overrides was not documented on payment documents and in two other instances the initials documenting the override initials did not match those in the Claims Processing System. The latter gives the impression that transactions were being entered using another employee's log-on and password, making it difficult to determine that employees authorize payments only within established dollar limits.

Recommendations

Remind designated staff of the need to correctly document approvals for over-rides on the payment document.

Auditee's Response

We concur with proposed recommendation and will reinforce the importance with the staff, of correctly documented approvals for over-rides.

We wish to thank the management and staff of Risk Management for their assistance and cooperation throughout the audit.

Respectfully submitted,

Copies to:

Larry Walker
Auditor/Controller-Recorder

County Administrative Office
Board of Supervisors
Grand Jury (2)
Risk Management

By: _____
C. J. Adams
Internal Auditor
Internal Audits Section

Audit File (3)

Date Report Distributed: _____

COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
COUNTY SERVICE AREA NO. 53
BIG BEAR / FAWNSKIN
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder
October 17, 2002

**County of San Bernardino Special Districts
County Service Area No. 53
Big Bear / Fawnskin**

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AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

November 19, 2002

Peter Hills, County Fire Warden
Office of Special Districts
157 W. Fifth Street, Second Floor
San Bernardino, CA 92415-0450

**SUBJECT: AUDIT OF COUNTY SERVICE AREA NO. 53 – BIG BEAR /
FAWSKIN FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of County Service Area No. 53 – Big Bear / Fawnskin for the fiscal year ended June 30, 2002.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the County of San Bernardino Special Districts County Service Area No. 53 – Big Bear / Fawnskin (the District), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2002, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and

significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the County of San Bernardino Special Districts County Service Area No. 53 – Big Bear / Fawnskin, as of June 30, 2002, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

As discussed in Note 1 to the basic financial statements, the accompanying financial statements reflect certain changes in the presentation of financial data required as a result of the implementation of Governmental Accounting Standards Board Statement Nos. 34, 37 and 38 for the year ended June 30, 2002. This results in a change in the format and content of the basic financial statements.

The accompanying budgetary comparison information on pages 25 – 26 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The County of San Bernardino Special Districts County Service Area No. 53 – Big Bear / Fawnskin has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Larry Walker
Auditor/Controller-Recorder

Copies to:

County Administrative Office
Board of Supervisors
Grand Jury (2)

By: Barbara K. Redding, CPA, CGFM
Internal Audits Manager

Audit File (3)

Date Report Distributed: 4/15/03

County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Statement of Net Assets
For the Fiscal Year Ended June 30, 2002

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 173,270	\$ 858,298	\$ 1,031,568
Accounts receivable	-	61,340	61,340
Taxes receivable	24,919	235	25,154
Interest receivable	2,460	8,512	10,972
Total current assets	<u>200,649</u>	<u>928,385</u>	<u>1,129,034</u>
Noncurrent assets:			
Capital assets:			
Land	155,395	-	155,395
Improvements to land	6,781	-	6,781
Construction in progress	-	63,758	63,758
Utility plant in service	-	3,514,936	3,514,936
Structures and improvements	53,058	-	53,058
Equipment and vehicles	511,995	14,461	526,456
Less accumulated depreciation	<u>(508,974)</u>	<u>(1,898,679)</u>	<u>(2,407,653)</u>
Total noncurrent assets	<u>218,255</u>	<u>1,694,476</u>	<u>1,912,731</u>
Total assets	<u><u>\$ 418,904</u></u>	<u><u>\$ 2,622,861</u></u>	<u><u>\$ 3,041,765</u></u>
LIABILITIES			
Current liabilities:			
Accounts payable	<u>\$ -</u>	<u>\$ 15,760</u>	<u>\$ 15,760</u>
Total current liabilities	<u>-</u>	<u>15,760</u>	<u>15,760</u>
Noncurrent liabilities:	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>15,760</u>	<u>15,760</u>
NET ASSETS			
Invested in capital assets	218,255	1,694,476	1,912,731
Unrestricted	<u>200,649</u>	<u>912,625</u>	<u>1,113,274</u>
Total net assets	<u>418,904</u>	<u>2,607,101</u>	<u>3,026,005</u>
Total liabilities and net assets	<u><u>\$ 418,904</u></u>	<u><u>\$ 2,622,861</u></u>	<u><u>\$ 3,041,765</u></u>

The accompanying notes are an integral part of these financial statements

County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Statement of Activities
For the Fiscal Year Ended June 30, 2002

	Governmental Activities	Business-Type Activities	Total
EXPENSES			
Salaries and benefits	\$ -	\$ 237,220	\$ 237,220
Services and supplies	446,118	217,073	663,191
Depreciation	6,054	78,699	84,753
Operating transfers out	33,000	-	33,000
Total expenses	<u>485,172</u>	<u>532,992</u>	<u>1,018,164</u>
PROGRAM REVENUES			
Charges for services	-	321,599	321,599
Total program revenues	-	321,599	321,599
Net program (expense) revenue	<u>(485,172)</u>	<u>(211,393)</u>	<u>(696,565)</u>
GENERAL REVENUES			
Property taxes	429,961	304	430,265
Special assessments	-	22,375	22,375
Other taxes	8,261	-	8,261
Interest revenue	8,173	38,310	46,483
Other state aid	10,015	-	10,015
Other revenues	374	7,450	7,824
Operating transfers in	-	4,000	4,000
Total general revenues	<u>456,784</u>	<u>72,439</u>	<u>529,223</u>
Change in net assets	(28,388)	(138,954)	(167,342)
Net assets - beginning	<u>447,292</u>	<u>2,746,055</u>	<u>3,193,347</u>
Net assets - ending	<u><u>\$ 418,904</u></u>	<u><u>\$ 2,607,101</u></u>	<u><u>\$ 3,026,005</u></u>

The accompanying notes are an integral part of these financial statements

County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Balance Sheet
Governmental Funds
For the Fiscal Year Ended June 30, 2002

	<u>Lighting (SJP)</u>	<u>Fire (SJS)</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 11,081	\$ 162,189	\$ 173,270
Interest receivable	28	2,432	2,460
Taxes receivable	<u>298</u>	<u>24,621</u>	<u>24,919</u>
Total assets	<u>\$ 11,407</u>	<u>\$ 189,242</u>	<u>\$ 200,649</u>
LIABILITIES AND FUND BALANCES			
Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balances:			
Unreserved	<u>11,407</u>	<u>189,242</u>	<u>200,649</u>
Total fund balances	<u>11,407</u>	<u>189,242</u>	<u>200,649</u>
Total liabilities and fund balances	<u>\$ 11,407</u>	<u>\$ 189,242</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	<u>218,255</u>
Net assets of governmental activities	<u>\$ 418,904</u>

The accompanying notes are an integral part of these financial statements

County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2002

	Lighting (SJP)	Fire (SJS)	Total
REVENUES			
Property taxes	\$ 14,157	\$ 415,804	\$ 429,961
Other taxes	99	8,162	8,261
Interest	89	8,084	8,173
State aid	120	9,895	10,015
Other	14	360	374
Total revenues	<u>14,479</u>	<u>442,305</u>	<u>456,784</u>
EXPENDITURES			
Services and supplies	7,914	438,204	446,118
Capital outlay	-	51,613	51,613
Total expenditures	<u>7,914</u>	<u>489,817</u>	<u>497,731</u>
Excess of revenues over (under) expenditures	<u>6,565</u>	<u>(47,512)</u>	<u>(40,947)</u>
OTHER FINANCING SOURCES (USES):			
Transfers out	-	(33,000)	(33,000)
Total other financing sources (uses)	<u>-</u>	<u>(33,000)</u>	<u>(33,000)</u>
Net change in fund balances	6,565	(80,512)	(73,947)
Fund balances - beginning	<u>4,842</u>	<u>269,754</u>	<u>274,596</u>
Fund balances - ending	<u><u>\$ 11,407</u></u>	<u><u>\$ 189,242</u></u>	<u><u>\$ 200,649</u></u>

The accompanying notes are an integral part of these financial statements

**County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Reconciliation of the Statement of Revenues, Expenditures,
And Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended June 30, 2002**

Net change in fund balances - total governmental funds	\$	(73,947)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.

45,559

Change in net assets of governmental activities

\$ (28,388)

The accompanying notes are an integral part of these financial statements

County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Statement of Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2002

	Enterprise Fund Sewer
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 858,298
Accounts receivable	61,340
Taxes receivable	235
Interest receivable	8,512
Total current assets	<u>928,385</u>
Noncurrent assets:	
Capital assets:	
Construction in progress	63,758
Utility plant in service	3,514,936
Equipment and vehicles	14,461
Less accumulated depreciation	<u>(1,898,679)</u>
Total noncurrent assets	<u>1,694,476</u>
Total assets	<u><u>\$ 2,622,861</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	<u>\$ 15,760</u>
Total current liabilities	<u>15,760</u>
Noncurrent liabilities:	<u>-</u>
Total liabilities	<u>15,760</u>
NET ASSETS	
Invested in capital assets	1,694,476
Unrestricted	<u>912,625</u>
Total net assets	<u>2,607,101</u>
Total liabilities and net assets	<u><u>\$ 2,622,861</u></u>

The accompanying notes are an integral part of these financial statements

County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Statement Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2002

	Enterprise Fund Sewer
OPERATING REVENUES	
Charges for services	\$ 321,599
Total operating revenues	<u>321,599</u>
OPERATING EXPENSES	
Salaries and benefits	237,220
Services and supplies	217,073
Depreciation	<u>78,699</u>
Total operating expenses	<u>532,992</u>
Operating income (loss)	<u>(211,393)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest	38,310
Property taxes	304
Special assessments	22,375
Other nonoperating revenues	<u>7,450</u>
Total nonoperating revenues (expenses)	<u>68,439</u>
Income before transfers	(142,954)
Transfers in	<u>4,000</u>
Change in net assets	(138,954)
Net assets - beginning	2,746,055
Net assets - ending	<u><u>\$ 2,607,101</u></u>

The accompanying notes are an integral part of these financial statements

County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2002

	Enterprise Fund
	Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from user charges	\$ 325,335
Payments to employees for services	(237,220)
Payments to suppliers for goods and services	(201,313)
Net cash provided (used) by operating activities	<u>(113,198)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Taxes received	187
Special assessments	22,375
Transfers in	4,000
Other receipts	7,450
Net cash provided (used) by non-capital financing activities	<u>34,012</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payments related to the acquisition, construction and improvement of capital assets	(31,372)
Net cash provided (used) by capital and related financing activities	<u>(31,372)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest	42,036
Net cash provided (used) by investing activities	<u>42,036</u>
Net increase (decrease) in cash and cash equivalents	(68,522)
Cash and cash equivalents - beginning	926,820
Cash and cash equivalents - ending	<u><u>\$ 858,298</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (211,393)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation expense	78,699
Change in assets and liabilities:	
Decrease in receivables, net	3,736
Increase in accounts and other payables	15,760
Net cash provided (used) by operating activities	<u><u>\$ (113,198)</u></u>
Noncash investing, capital, and financing activities:	

The accompanying notes are an integral part of these financial statements

County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Statement of Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2002

	Agency Fund
	<u>1915 Bond Act</u>
ASSETS	
Cash and cash equivalents	<u>\$ 31,326</u>
Total assets	<u><u>\$ 31,326</u></u>
 LIABILITIES	
Due to bondholders	<u>\$ 31,326</u>
Total liabilities	<u><u>\$ 31,326</u></u>

The accompanying notes are an integral part of these financial statements

**County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area No. 53 - Big Bear / Fawnskin (the District) – is a special district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter. The County of San Bernardino (the County) was established in 1852 as a legal subdivision of the State of California.

The District was established by an act of the Board of Supervisors of the County (the Board) on January 2, 1968 with the active powers of fire (inspection, suppression, protection, first aid, and rescue), sewer (collection and disposal), water, road (maintenance and improvements), and street lighting. Currently, the governmental reporting entity consists of fire and sewer services to the community of Fawnskin, and street lighting to the north shore of Big Bear Lake.

The District is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable, or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (i) the County has the ability to impose its will on the organization, or (ii) there is potential for the organization to provide a financial benefit to, or impose a financial burden on, the County.

The accompanying financial statements reflect only the accounts of the District and are not intended to present the financial position of the County taken as a whole.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally

County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as taxes and federal and state grants, the County expanded its definition of “available” to 9 months. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

The District reports the following major governmental funds:

The *special revenue fund* labeled “Fire” is the government’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue fund* labeled “Lighting” provides streetlights for the north shore of Big Bear Lake.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's enterprise fund is charges to customers for sanitation services. Operating expenses for enterprise funds include the cost of salaries and benefits, services and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

The District reports the following major proprietary funds:

The *enterprise fund* labeled “Sewer” accounts for the sanitation activities of the District.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Agency funds (fiduciary-type funds) are used to account for assets held by the District as an agent for individuals, private organizations, other governments and/or other funds. The funds are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations. The modified accrual basis of accounting is used for the District's single agency fund. The fund is used to account for the

**County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

accumulation of resources for, and payment of, the bonds issued under the Improvement Act of 1915 for certain sewer improvements.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." All accounts receivable are shown net of an allowance for uncollectibles when applicable.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Capital assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend asset life is not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Structures & improvements	5 – 45
Equipment and vehicles	6 – 15
Utility plant in service	45

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$45,559 difference are as follows:

Capital outlay	\$ 51,613
Depreciation expense	<u>6,054</u>
Net difference	<u><u>\$ 45,559</u></u>

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

**County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

Changes in accounting principle

During the 2001-02 fiscal year, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*, and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of July 1, 2001. The above changes have resulted in a change to the format and content of the District's basic financial statements.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and cash equivalents are shown at the fair value as of June 30, 2002.

NOTE 3: CAPITAL ASSETS

The costs of building and acquiring capital assets (land, buildings, vehicles and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the statement of net assets includes those capital assets among the assets of the District as a whole, and their original costs are expensed annually over their useful lives. Capital asset activity for governmental and business-type activities for the year ended June 30, 2002 follows. All governmental assets and depreciation are from the fire protection activity.

County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 3: CAPITAL ASSETS - Continued

	Balance at July 1, 2001	Additions	Disposals	Balance at June 30, 2002
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 155,395	\$ -	\$ -	\$ 155,395
Total capital assets not being depreciated	155,395	-	-	155,395
Capital assets being depreciated:				
Improvements to land	6,781	-	-	6,781
Structures and improvements	53,058	-	-	53,058
Vehicles	455,279	51,613	-	506,892
Equipment	5,103	-	-	5,103
Total capital assets being depreciated	520,221	51,613	-	571,834
Less accumulated depreciation for:				
Improvements to land	4,336	234	-	4,570
Structures and improvements	39,846	1,179	-	41,025
Vehicles	455,279	4,301	-	459,580
Equipment	3,459	340	-	3,799
Total accumulated depreciation	502,920	6,054	-	508,974
Total capital assets being depreciated, net	17,301	45,559	-	62,860
Total net capital assets	\$ 172,696	\$ 45,559	\$ -	\$ 218,255

County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 3: CAPITAL ASSETS – Continued

	Balance at July 1, 2001	Additions	Disposals	Balance at June 30, 2002
Business-type activities				
Capital assets not being depreciated:				
Construction in progress	\$ 32,386	\$ 31,372	\$ -	\$ 63,758
Total capital assets not being depreciated	32,386	31,372	-	63,758
Capital assets being depreciated:				
Utility plant in service	3,514,936	-	-	3,514,936
Equipment	14,461	-	-	14,461
Total capital assets being depreciated	3,529,397	-	-	3,529,397
Less accumulated depreciation for:				
Utility plant in service	1,812,587	78,110	-	1,890,697
Equipment	7,393	589	-	7,982
Total accumulated depreciation	1,819,980	78,699	-	1,898,679
Total capital assets being depreciated, net	1,709,417	(78,699)	-	1,630,718
Total net capital assets	\$ 1,741,803	\$ (47,327)	\$ -	\$ 1,694,476

Construction in progress represents the following projects:

Project Title	Budget	YTD Expenses	Projected Completion Date
Replace Vacuum System	\$ 65,000	\$ 15,475	2003
Facility Plan for Site	\$ 22,877	12,617	2003
New Roof for Fire Station	\$ 4,000	3,280	2002
Total		\$ 31,372	

**County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 4: RETIREMENT PLAN

Plan description

The San Bernardino County Employees Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). The plan provides retirement, death, and disability benefits to members. Although legally established as a single employer plan for the County of San Bernardino (which includes the District), the organizations listed below were added later:

- City of Big Bear Lake
- City of Chino Hills
- California State Association of Counties
- San Bernardino County Law Library
- Crest Forest Fire Protection District
- Mojave Desert Air Quality Management District (MDAQMD)
- South Coast Air Quality Management District (AQMD)
- Local Agency Formation Commission (LAFCO)

The District and others covered under the plan are collectively referred to as the “Participating Members.” The plan is governed by the San Bernardino County Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report which may be obtained by contacting the Board of Retirement, 348 West Hospitality Lane, San Bernardino, California 92415-0014.

Funding policy

Participating members are required by statute (Sections 31621, 31521.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry into the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 7.11% - 10.58% of their annual covered salary of which the District pays approximately 7%. Employers are required to contribute 6.67% - 14.46% of the current year covered payroll. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Section 31453 of the 1937 Act.

**County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 5: SELF INSURANCE

The District participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The District did not incur any insurance costs for annual premiums for the year ended June 30, 2002.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II. Workers compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance which are accounted for in the General Fund of the County of San Bernardino. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, worker's compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investments in the agreements totaled \$42,590,000 at June 30, 2002.

The total County claims liability of \$95,288,000 reported at June 30, 2002 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 5: SELF INSURANCE - *Continued*

Changes in the claims liability amount in fiscal years 2001 and 2002 were (in thousands):

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-end
2000-01	\$ 52,853	\$ 13,384	\$ (5,065)	\$ 61,172
2001-02	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

The District did not have any outstanding liability claims for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability, and worker's compensation for the year ending June 30, 2002.

NOTE 6: CONTINGENCIES

As of June 30, 2002, in the opinion of the Special District's Administration, there are no outstanding matters which would have a significant effect on the financial position of the District.

NOTE 7: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIII B to the State Constitution, established limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2001-2002 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

NOTE 8: NET ASSETS

Net assets represent the difference between assets and liabilities. The net asset amounts were \$418,904 for governmental activities and \$2,607,101 for business-type activities.

NOTE 9: SPECIAL ASSESSMENT ACCOUNTING – 1915 ACT BONDS

The District issued bonds under the Improvement Act of 1915 to finance certain sewer improvements. The District reports 1915 Act Bonds according to the provisions of the Governmental Standard Board's Statement No. 6. Bonds outstanding at June 30, 2002, in the amount of \$778,385 are not a direct liability of the District and, therefore, are not reported on the District's financial statements.

County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 10: INTERFUND TRANSFERS IN/OUT

Interfund Transfers In/Out transactions are used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital project funds. At June 30, 2002, the District made the following Interfund Transfers In and Out:

Fund	Purpose	Amount
EAE	To EBA for Operations & Maintenance	\$ 150,394
EBA	To Capital Replacement Reserve (EAE) - Depreciation Expense	26,375
SJS	To EBK 365 for Fire Station Roof Repair Project	4,000
EBA	From EAE for Operations & Maintenance	(150,394)
EAE	From Operating Acct (EBA) – Depreciation Expense	(26,375)
EBK	From SJS 365 for Fire Station Roof Repair Project	(4,000)
Net Interfund Transfers		<u>\$ -</u>

County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Required Supplementary Information
Budgetary Comparison Schedule
June 30, 2002

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget
Lighting (SJP)				Positive
				(Negative)
Budgetary fund balance, July 1, 2001	\$ 4,842	\$ 4,842	\$ 4,842	\$ -
Resources (inflows):				
Property taxes	5,109	5,109	14,157	9,048
Other taxes	-	-	99	99
Interest and rents	-	-	89	89
Other state aid	-	-	120	120
Other revenue	-	-	14	14
Amounts available for appropriation	9,951	9,951	19,321	9,370
Charges to appropriations (outflows):				
Salaries and benefits	2,891	-	-	-
Services and supplies	5,196	8,087	7,914	173
Reimbursements	1,864	1,864	-	1,864
Total charges to appropriations	9,951	9,951	7,914	2,037
Budgetary fund balance, June 30, 2002	\$ -	\$ -	\$ 11,407	\$ 11,407

County of San Bernardino
County Service Area No. 53 – Big Bear / Fawnskin
Required Supplementary Information
Budgetary Comparison Schedule
June 30, 2002

Fire (SJS)	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
Budgetary fund balance, July 1, 2001	\$ 218,259	\$ 218,259	\$ 269,754	\$ 51,495
Resources (inflows):				
Property taxes	419,636	419,636	415,804	(3,832)
Other taxes	-	-	8,162	8,162
Interest and rents	7,550	7,550	8,084	534
Other state aid	-	-	9,895	9,895
Other revenue	-	-	360	360
Amounts available for appropriation	645,445	645,445	712,059	66,614
Charges to appropriations (outflows):				
Services and supplies	426,257	434,257	438,204	(3,947)
Equipment and vehicles	4,200	200	51,613	(51,413)
Operating transfers out	144,000	140,000	33,000	107,000
Reserves & contingencies	70,988	70,988	-	70,988
Total charges to appropriations	645,445	645,445	522,817	122,628
Budgetary fund balance, June 30, 2002	\$ -	\$ -	\$ 189,242	\$ 189,242

COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
COUNTY SERVICE AREA NO. 64
SPRING VALLEY LAKE
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder
October 18, 2002

**County of San Bernardino Special Districts
County Service Area No. 64
Spring Valley Lake**

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AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

AUDITOR/CONTROLLER • 222 West Hospitality Lane, Fourth Floor
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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

October 18, 2002

Emil A. Marzullo, Director
Office of Special Districts
157 W. Fifth Street, Second Floor
San Bernardino, CA 92415-0450

**SUBJECT: AUDIT OF COUNTY SERVICE AREA NO. 64 – SPRING VALLEY LAKE
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of County Service Area No. 64 – Spring Valley Lake for the fiscal year ended June 30, 2002.

Auditor's Report

We have audited the accompanying financial statements of the business-type activities of the County of San Bernardino Special District County Service Area No. 64 – Spring Valley Lake (CSA), a component unit of the County of San Bernardino, for the year ended June 30, 2002, which comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates

made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the County of San Bernardino Special District County Service Area No. 64 – Spring Valley Lake as of June 30, 2002, and the respective changes in financial position and cash flow, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

As discussed in Note 1 to the basic financial statements, the accompanying financial statements reflect certain changes in the presentation of financial data required as a result of the implementation of Governmental Accounting Standards Board Statement Nos. 34, 37 and 38 for the year ended June 30, 2002. This results in a change in the format and content of the basic financial statements.

The County of San Bernardino Special District County Service Area No. 64 – Spring Valley Lake has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Larry Walker
Auditor/Controller-Recorder

Copies to:

County Administrative Office
Board of Supervisors
Grand Jury (2)

By:

Barbara K. Redding, CPA, CGFM
Internal Audits Manager

Audit File (3)

Date Report Distributed:

5/6/03

County of San Bernardino
County Service Area No. 64 - Spring Valley Lake
Statement of Net Assets
June 30, 2002

ASSETS

Current assets:

Cash and cash equivalents	\$ 4,274,185
Receivables:	
Accounts	270,165
Taxes	17,628
Interest	41,651
Due from other governments	42,727
Total current assets	<u>4,646,356</u>

Noncurrent assets:

Capital assets:

Land	10,000
Construction in progress	309,781
Structures and improvements	5,850,562
Equipment and vehicles	62,225
Less accumulated depreciation	<u>(3,523,641)</u>
Total noncurrent assets	<u>2,708,927</u>

Total assets

\$ 7,355,283

LIABILITIES and NET ASSETS

Current liabilities:

Accounts Payable	77,933
Interest Payable	37,421
Due to Other Governments	28,422
Bonds payable - Current Portion	90,000
Matured Bonds Payable	<u>30,000</u>
Total current liabilities	<u>263,776</u>

Noncurrent liabilities:

Bonds payable	<u>90,000</u>
Total noncurrent liabilities	<u>90,000</u>
Total liabilities	<u>353,776</u>

Net assets:

Invested in capital assets, net of related debt	2,708,927
Unrestricted	<u>4,292,580</u>
Total net assets	<u>7,001,507</u>

Total liabilities and net assets

\$ 7,355,283

The notes to the financial statement are an integral part of this statement

County of San Bernardino
County Service Area No. 64 - Spring Valley Lake
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2002

OPERATING REVENUES

Sales of Water	\$ 1,213,069
Charges for sanitation services	697,776
Fees	191,824
Special Assessments	64,646
Other services	36,462
	<hr/>
Total operating revenues	2,203,777

OPERATING EXPENSES

Salaries and benefits	802,320
Professional services	328,814
Services and supplies	382,901
Utilities	219,923
Rents and leases	1,370
Other operating expenses	46,695
Depreciation	109,285
	<hr/>
Total operating expenses	1,891,308

Operating income (loss)	<hr/> 312,469
-------------------------	---------------

NONOPERATING REVENUES (EXPENSES)

Interest revenue	180,833
Property taxes	352,200
Other taxes	9,111
State aid	8,004
Gain on sale of capital assets	869
Other nonoperating revenues	65,230
Interest expense	(18,059)
	<hr/>
Total nonoperating revenues (expenses)	598,188

Change in net assets	910,657
----------------------	---------

Net assets, July 1, 2001 (As restated, Note 10)	<hr/> 6,090,850
---	-----------------

Net assets, June 30, 2002	<hr/> <hr/> \$ 7,001,507
---------------------------	--------------------------

The notes to the financial statement are an integral part of this statement

County of San Bernardino
County Service Area No. 64 - Spring Valley Lake
Statement of Cash Flows
For the Fiscal year ended June 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES

Received from user charges	\$ 2,154,154
Payments to employees for services	(802,320)
Payments to suppliers for goods and services	(915,126)
	<hr/>
Net cash used by operating activities	436,708
	<hr/>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Taxes received	418,291
Other receipts	20,768
	<hr/>
Net cash provided	439,059
	<hr/>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Payments related to the acquisition, construction and improvement of capital assets	(107,088)
Principal paid on capital debt	(180,000)
Interest paid on capital debt	(21,830)
Gain on sale of capital asset	869
	<hr/>
Net cash (used) by capital and related financing activities	(308,049)
	<hr/>

CASH FLOWS FROM INVESTING ACTIVITIES

Increase in fair value of investments	12,474
Interest	175,998
	<hr/>
Net cash provided by investing activities	188,472
	<hr/>
Net increase in cash and cash equivalents	756,190
Balances-beginning of the year	3,517,995
	<hr/>
Balances-end of the year	\$ 4,274,185
	<hr/> <hr/>

Reconciliation of operating income (loss) to net cash provided by operating activities:

Operating income (loss)	\$ 312,469
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	109,285
Change in assets and liabilities:	
Receivables, net	(49,623)
Accounts and other payables	64,577
	<hr/>
Net cash provided by operating activities	\$ 436,708
	<hr/> <hr/>

The notes to the financial statement are an integral part of this statement

**County of San Bernardino Special Districts
County Service Area No. 64 – Spring Valley Lake
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The County Service Area (CSA) No. 64 – Spring Valley Lake (the “District”) – is a special district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter (the County). The County was established in 1852 as a legal subdivision of the State of California.

The District was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on November 18, 1968 with the active powers of sewer (collection and disposal) and water. The sewer operation currently serves approximately 3,740 equivalent dwelling units (EDUs). The water operation serves 3,358 water connections and maintains 5 wells and one booster station.

The District is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County’s financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit’s board, and (i) either the County’s ability to impose its will on the organization or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of County Service Area No. 64 and are not intended to present the financial position of the County taken as a whole.

Measurement focus, basis of accounting, and financial statement presentation

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenue of the CSA enterprise fund is charges to customers for sales of water and sewer charges. Operating expenses for enterprise funds include the cost of salaries and benefits, service and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

The government reports the following major proprietary fund:

The *enterprise fund* labeled “Sewer” accounts for the activities of the CSA.
The CSA operates the sewer under the administration of Water/Sewer.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial

**County of San Bernardino Special Districts
County Service Area No. 64 – Spring Valley Lake
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. However, for revenue derived from voluntary non-exchange transactions, such as federal and state grants, the County expanded its definition of "available" to 9 months. All other revenue items are considered to be measurable and available only when cash is received by the government.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are

reported in the government-wide financial statements as "internal balances." All accounts receivable are shown net of an allowance for uncollectibles when applicable.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

County of San Bernardino Special Districts
County Service Area No. 64 – Spring Valley Lake
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Structures & improvements	5 – 45
Equipment and vehicles	6 – 15
Utility Plant in Service	45

**County of San Bernardino Special Districts
County Service Area No. 64 – Spring Valley Lake
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Employee Compensated Absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a current liability. The District is not obligated to pay for unused sick leave if an employee terminates or retires.

There was no compensated absences liability for the year ended June 30, 2002.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Changes in accounting principle

During the 2001-02 fiscal year, the CSA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*. The above changes have resulted in a change to the format and content of the CSA's basic financial statements.

Change in accounting estimate

During 2002, management determined that the useful lives of structures, utility plant, improvements, equipment and vehicles were longer than originally expected. A change in accounting estimate was recognized to reflect this decision, resulting in an increase in net income of \$21,527.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2002.

County of San Bernardino Special Districts
County Service Area No. 64 – Spring Valley Lake
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 3: CAPITAL ASSETS

Capital asset activity for year ended June 30, 2002 was as follows:

	Balance at July 1, 2001	Additions	Disposals	Transfers & Adjustments	Balance at June 30, 2002
Capital assets not being depreciated:					
Land	\$ 10,000	--	--	--	\$ 10,000
Construction in progress	169,725	\$ 135,511	--	--	309,781
Total capital assets not being depreciated	179,725	135,511	--	--	319,781
Capital assets, being depreciated:					
Structures	374,305	--	--	4,545	369,760
Improvements	5,480,802	--	--	--	5,480,802
Equipments and vehicles	81,865	--	19,640	--	62,225
Total capital assets being depreciated	5,936,972	--	19,640	4545	5,912,787
Less accumulated depreciation for;					
Structures and improvements	3,700,904	105,559	--	337,904	3,468,559
Equipment and vehicles	71,436	3,726	19,640	440	55,082
Total accumulated depreciation	3,772,340	109,285	19,640	338,334	3,523,641
Total capital assets, being depreciated – net	2,164,632	109,285	--	333,799	2,389,146
Total net capital assets	\$ 2,344,357	\$ 26,226	--	\$ 333,799	\$ 2,734,170

**County of San Bernardino Special Districts
County Service Area No. 64 – Spring Valley Lake
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 3: CAPITAL ASSETS - *Continued*

At June 30, 2002, construction in progress represents the following projects:

Project Title	Budget	YTD Expenses	Projected Completion Date
Catalina Lift Station	275,605	\$ 102,970	2003
Parkway Lift Station	87,166	42,280	2003
New Pump and Back up Power	201,377	73,560	2002
Telemetry Project	476,408	65,971	2003
Lakerview Lift Station	795,000	25,000	2002
Total		\$ 309,781	

NOTE 4: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). The plan provides retirement, death, and disability benefits to members. Although legally established as a single employer plan for the County of San Bernardino (which includes the District), the organizations listed below were added later:

- City of Big Bear Lake
- City of Chino Hills
- California State Association of Counties
- San Bernardino County Law Library
- Crest Forest Fire Protection District
- Mojave Desert Air Quality management District (MDAQMD)
- South Coast Air Quality Management District (AQMD)
- Local Agency Formation Commission (LAFCO)

The District and others covered under the plan are collectively referred to as the "Participating Members." The plan is governed by the San Bernardino County Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 West Hospitality Lane, San Bernardino, California 92415-0014.

County of San Bernardino Special Districts
County Service Area No. 64 – Spring Valley Lake
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002

Funding Policy

Participating members are required by statute (Sections 31621, 31521.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age and classification (general and safety). Members are required to contribute 7.11% - 10.58% of their annual covered salary of which the District pays approximately 7%. Employers are required to contribute 6.67% - 14.46% of the current year covered payroll. During the year, the district paid \$74,238 to the plan as the employer's share. Employee contribution rates were established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Section 31453 of the 1937 Act.

NOTE 5: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenses which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 6: SELF INSURANCE

The District participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The only insurance costs the District will incur will be for annual premiums paid to the Risk Management Fund. Insurance premiums paid to the Risk Management Fund. Insurance premiums totaled for the year ended June 30, 2002.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II. Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The activities related to such programs are accounted for in the Risk Management Fund

**County of San Bernardino Special Districts
County Service Area No. 64 – Spring Valley Lake
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 6: SELF INSURANCE - *Continued*

(an Internal Service Fund) except for unemployment insurance and employee dental insurance which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and includes amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$42,590,000 at June 30, 2002.

The total County claims liability of \$95,288,000 reported at June 30, 2002 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the claims liability amount in fiscal years 2001 and 2002 were (in thousands):

Fiscal Year	Beginning Liability	Current Year Claims and Changes in Estimates	Claims Payments	Ending Liability
2000-01	\$ 52,853	\$ 13,384	\$ (5,065)	\$ 61,172
2001-02	61,172	61,832	(27,716)	95,288

County Service Area No. 64 did not have any outstanding liability claims filed against the District for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability, and worker's compensation claims for the year ending June 30, 2002.

County of San Bernardino Special Districts
County Service Area No. 64 – Spring Valley Lake
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 7: TRANSFERS IN/OUT

Interfund transfers are transactions are used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital project funds. At June 30, 2002, the District made the following interfund transfers in and out:

Fund	Description	Purpose	Amount
EBR	Replacement Reserve - Sewer	Reimburse	\$ 84,408
EBM	Sewer	Reimburse	(84,808)
EBM	Sewer	Reimburse	307,426
EBR	Replacement Reserve –Sewer	Reimburse	(307,426)
EIV	Replacement Reserve – Water	Reimburse	192,304
ECB	Water	Reimburse	(192,304)
ECB	Water	Reimburse	196,778
EBT	Capital Accumulation	Reimburse	900,000
EDB	Well #7	Reimburse	70,000
EDC	Two 3,000,000 Gallon Reservoirs	Reimburse	400,000
EBT	Capital Accumulation	Reimburse	(470,000)
EIV	Replacement Reservoir	Reimburse	<u>(1,096,778)</u>
Net Interfund Transfers			<u><u>\$ --</u></u>

NOTE 8: CONTINGENCIES

As of June 30, 2002, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

**County of San Bernardino Special Districts
County Service Area No. 64 – Spring Valley Lake
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 9: NET ASSETS

Net assets represent the difference between assets and liabilities. The net asset amounts were as follows:

	<u>June 30, 2002</u>
Invested in Capital Assets, Net of Related Debt:	
Net Improvements to Land, Construction in Progress, Utility Plant in Service, Structures and Improvements, and Equipment & Vehicles	\$ 2,708,927
Add: Prior year contributed capital	0
Less: Revolving loans payable	<u>0</u>
Unrestricted	<u>4,292,580</u>
Total net assets	<u>\$ 7,001,507</u>

NOTE 10: PRIOR PERIOD ADJUSTMENT TO FUND BALANCE

On July 1, 2001 fund balance was understated by \$ 340,498. Fund balance was restated with a prior period adjustment to correct this overstatement at June 30, 2001.

The restatement of fund balance is as follows:

Fund Balance previously reported at June 30, 2001	\$ 5,753,338
Prior Period Adjustment to correct the over accumulated depreciation	<u>337,512</u>
Fund Balance Restated, June 30, 2001	\$ 6,090,850

**County of San Bernardino Special Districts
County Service Area No. 64 – Spring Valley Lake
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 11: BOND PAYABLE

In 1972, 1974, and 1990 the Board of Supervisors approved the issuance of General Obligation Bonds by the District. The bonds are referred to as Series A, Series B, and Series D respectively. Series D bonds were paid off in the fiscal year ended June 30, 2001 and Series A bonds were paid off in the Fiscal year ended June 30, 2002.

Authority for the issuance of the bonds is provided under the County Service Area Law of the California Government Code.

Annual debt service requirements to maturity for the Series B bonds are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2003	90,000	\$ 11,025
2004	90,000	5,490
Total	<u>\$ 180,000</u>	<u>\$ 16,515</u>

COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
COUNTY SERVICE AREA No. 70
ZONE R – 40
UPPER NORTH BAY LAKE ARROWHEAD
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

Prepared by:
Internal Audits Section
Office of the Auditor/Controller-Recorder
March 17, 2003

**County of San Bernardino Special Districts
CSA 70 Zone R – 40 Upper North Bay Lake Arrowhead**

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COUNTY OF SAN BERNARDINO

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

March 17, 2003

Emil Marzullo, Director
Office of Special Districts
157 West Fifth Street, Second Floor
San Bernardino, CA 92415-0450

**SUBJECT: AUDIT OF SAN BERNARDINO COUNTY SERVICE AREA NO. 70
ZONE R – 40, UPPER NORTH BAY LAKE ARROWHEAD FOR
THE FISCAL YEAR ENDED JUNE 30, 2002**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of the County Service Area No. 70, Zone R – 40 for the fiscal year ended June 30, 2002.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities and the remaining aggregate information of the County of San Bernardino County Service Area No. 70 Zone R – 40, (CSA) a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2002, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Independent Auditor's Report

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the remaining aggregate fund information of the County of San Bernardino CSA 70 Zone R – 40 as of June 30, 2002, and the respective changes in financial position for the year ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

As discussed in Note 1 to the basic financial statements, the accompanying financial statements reflect certain changes in the presentation of financial data required as a result of the implementation of Governmental Accounting Standards Board Statement Nos. 34, 37 and 38 for the year ended June 30, 2002. This results in a change in the format and content of the basic financial statements.

The accompanying budgetary comparison information on page 18 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express an opinion on it.

The County of San Bernardino CSA 70 Zone R – 40 has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Larry Walker
Auditor/Controller-Recorder

Copies to:
County Administrative Office
Board of Supervisors
Grand Jury (2)

By Barbara K. Redding, CPA, CGFM
Internal Audits Manager

Audit File (3)

LDW:BKR:SMS:spr.1

Date Report Distributed: 4/29/03

County of San Bernardino
County Service Area No. 70 Zone R-40 Upper North Bay Lake Arrowhead
Statement of Net Assets
June 30, 2002

ASSETS

Cash and cash equivalents	\$ 13,805
Interest receivable	114
Capital Assets, net of accumulated depreciation	<u>174,375</u>
Total Assets	<u><u>\$ 188,294</u></u>

LIABILITIES

Liabilities	<u>\$ -</u>
-------------	-------------

NET ASSETS

Unrestricted	13,919
Invested in capital assets, net of related debt	<u>174,375</u>
Total Net Assets	<u><u>\$ 188,294</u></u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area 70 Zone R-40 Upper North Bay Lake Arrowhead
Statement of Activities
For the Year Ended June 30, 2002

EXPENSES

Services and supplies	\$ 3,291
Depreciation	4,500
Total Program Expenses	<u>7,791</u>

PROGRAM REVENUES

Charges for services	<u>-</u>
Net Program Revenue (Expense)	<u>(7,791)</u>

GENERAL REVENUES

Special assessments	16,998
Interest	212
Total General Revenues	<u>17,210</u>

Change in Net Assets	9,419
----------------------	-------

OTHER FINANCING SOURCES

Contributed Capital	<u>178,875</u>
---------------------	----------------

Net Assets - beginning	<u>-</u>
-------------------------------	----------

Net Assets - ending	<u><u>\$ 188,294</u></u>
----------------------------	--------------------------

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 Zone R-40 Upper North Bay Lake Arrowhead
Balance Sheet
Governmental Fund
June 30, 2002

	Road (RGW)
ASSETS	
Cash and cash equivalents	\$ 13,805
Interest receivable	114
	<hr/>
Total Assets	\$ 13,919
	<hr/>
LIABILITIES AND FUND BALANCES	
Liabilities	\$ -
	<hr/>
Fund Balances:	
Unreserved	13,919
Total Fund Balances	13,919
	<hr/>
Total Liabilities and Fund Balances	\$ 13,919
	<hr/>
Total fund balances - governmental fund	\$ 13,919
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	174,375
	<hr/>
Net assets of governmental fund	\$ 188,294
	<hr/>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 Zone R-40 Upper North Bay Lake Arrowhead
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund
For the Year Ended June 30, 2002

	Road (RGW)
REVENUES	
Special assessments	\$ 16,998
Interest	212
Total Revenue	<u>17,210</u>
EXPENDITURES	
Services and Supplies	<u>3,291</u>
Total Expenditures	<u>3,291</u>
Net Change in Fund Balances	13,919
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to Statement of Activities.	
Fund Balances - beginning	0
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds do not report depreciation. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount recorded for depreciation expense in the current period.	
	<u>(4,500)</u>
Change in net assets governmental activities	<u><u>\$ 9,419</u></u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 Zone R-40 Upper North Bay Lake Arrowhead
Notes to the Financial Statements
June 30, 2002

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 70 – Zone R-40- Upper North Bay Lake Arrowhead (the District) – is a special district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter (the County). The County was established in 1852 as a legal subdivision of the State of California.

The District was established by an act of the Board of Supervisors of the County of San Bernardino on March 20, 2001 with the active powers of maintaining and constructing road improvements. Currently, the governmental reporting entity consists of road maintenance for a roadway on the Upper North Bay of Lake Arrowhead.

The District is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (i) the County has the ability to impose its will on the organization, or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of County Service Area No. 70 Zone R-40 and are not intended to present the financial position of the County taken as a whole.

Government-wide and fund financial statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the reporting entity. As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and

County of San Bernardino Special Districts
County Service Area No. 70 Zone R-40 Upper North Bay Lake Arrowhead
Notes to the Financial Statements
June 30, 2002

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Government-wide and fund financial statements

contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Separate financial statements are provided for governmental funds, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary fund financial statements. Revenues, are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing or related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as taxes and federal and state grants, the County expanded its definition of "available" to 9 months. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be

County of San Bernardino Special Districts
County Service Area No. 70 Zone R-40 Upper North Bay Lake Arrowhead
Notes to the Financial Statements
June 30, 2002

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Measurement focus, basis of accounting, and financial statement presentation

The government reports the following major governmental funds:

The government's primary operating fund is a special revenue fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The fund provides road maintenance services for the Upper North Bay of Lake Arrowhead.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and

County of San Bernardino Special Districts
County Service Area No. 70 Zone R-40 Upper North Bay Lake Arrowhead
Notes to the Financial Statements
June 30, 2002

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

business-type activities are reported in the government-wide financial statements as "internal balances." All accounts receivable are shown net of an allowance for uncollectible when applicable.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

County of San Bernardino Special Districts
County Service Area No. 70 Zone R-40 Upper North Bay Lake Arrowhead
Notes to the Financial Statements
June 30, 2002

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Property, plant and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

Capital assets

<u>Assets</u>	<u>Years</u>
Infrastructure	40
Structures & improvements	5 – 45
Equipment and vehicles	6 – 15
Utility Plant in Service	45

The CSA does not have any structures, equipment, vehicles and a utility plant. The capital assets consist of six-tenths of a mile of a paved roadway. The roadway was donated by a private property owner in Lake Arrowhead.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as

County of San Bernardino Special Districts
County Service Area No. 70 Zone R-40 Upper North Bay Lake Arrowhead
Notes to the Financial Statements
June 30, 2002

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$ 4,500 difference are as follows:

Reconciliation of government-wide and fund financial statements

Depreciation expense	4,500
Net adjustment to decrease <i>net change in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ 4,500

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

County of San Bernardino Special Districts
County Service Area No. 70 Zone R-40 Upper North Bay Lake Arrowhead
Notes to the Financial Statements
June 30, 2002

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Changes in accounting principle

During the 2001-02 fiscal year, the CSA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*, and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of July 1, 2001. The above changes have resulted in a change to the format and content of the CSA's basic financial statements.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2002.

NOTE 3: CAPITAL ASSETS

The costs of building and acquiring capital assets (land, buildings, vehicles and equipment and infrastructure) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the statement of net assets includes those capital assets among the assets of County Service Area No. 70 Zone R-40 as a whole, and their original costs are expensed annually over their useful lives. All governmental assets and depreciation are from the road maintenance activity. Capital asset activity for governmental activities for the year ended June 30, 2002 follows:

County of San Bernardino Special Districts
County Service Area No. 70 Zone R-40 Upper North Bay Lake Arrowhead
Notes to the Financial Statements
June 30, 2002

NOTE 3: CAPITAL ASSETS (Continued)

	Balance at July 1, 2001	Additions	Disposals	Balance at June 30, 2002
Governmental activities				
<i>Capital assets being depreciated:</i>				
Infrastructure-Roadway	\$ 180,000	-	-	\$ 180,000
Total capital assets being depreciated	180,000	-	-	180,000
Less accumulated depreciation for:				
Infrastructure-Roadway	1,125	4,500	-	5,625
Total accumulated depreciation	1,125	4,500	-	5,625
Total capital assets being depreciated, net	178,875	(4,500)	-	174,375
Total net capital assets	\$ 178,875	\$ (4,500)		\$ 174,375

NOTE 4: RETIREMENT PLAN

Plan description

The San Bernardino County Employees Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). The plan provides retirement, death, and disability benefits to members. Although legally established as a single employer plan for the County of San Bernardino (which includes the District), the organizations listed below were added later:

City of Big Bear Lake
City of Chino Hills
California State Association of Counties
San Bernardino County Law Library
Crest Forest Fire Protection District
Mojave Desert Air Quality Management District (MDAQMD)
South Coast Air Quality Management District (AQMD)
Local Area Formation Commission (LAFCO)

County of San Bernardino Special Districts
County Service Area No. 70 Zone R-40 Upper North Bay Lake Arrowhead
Notes to the Financial Statements
June 30, 2002

NOTE 4: RETIREMENT PLAN (*Continued*)

The District and others covered under the plan are collectively referred to as the "Participating Members." The plan is governed by the San Bernardino County Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand alone financial report which may be obtained by contacting the Board of Retirement, 348 West Hospitality Lane, San Bernardino, California 92415-0014.

Funding policy

Participating members are required by statute (Sections 31621, 31521.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry into the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 7.11% - 10.58% of their annual covered salary of which the District pays approximately 7%. Employers are required to contribute 6.67% - 14.46% of the current year covered payroll. During the year, the District paid \$ 0 to the plan as the employer's share. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Section 31453 of the 1937 Act.

NOTE 5: SELF INSURANCE

The District participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The District did not incur any insurance cost or annual premiums for the year ended June 30, 2002.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II. Workers compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

County of San Bernardino Special Districts
County Service Area No. 70 Zone R-40 Upper North Bay Lake Arrowhead
Notes to the Financial Statements
June 30, 2002

NOTE 5: SELF INSURANCE (Continued)

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance which is accounted for in the General Fund of the County of San Bernardino. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, worker's compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investments in the agreements totaled \$42,590,000 at June 30, 2002.

The total County claims liability of \$95,288,000 reported at June 30, 2002 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the claims liability amount in fiscal years 2001 and 2002 were (in thousands):

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-end
2000-01	\$ 52,853	13,384	(5,065)	\$ 61,172
2001-02	\$ 61,172	61,832	(27,716)	\$ 95,288

County Service Area No. 70 Zone R-40 did not have any outstanding liability claims filed against the CSA for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and worker's compensation claims for the year ending June 30, 2002.

County of San Bernardino Special Districts
County Service Area No. 70 Zone R-40 Upper North Bay Lake Arrowhead
Notes to the Financial Statements
June 30, 2002

NOTE 6: NET ASSETS

Net assets represent the difference between assets and liabilities. The net asset amounts were as follows:

Invested in Capital Assets, Net of Related Debt:	
Net roadways	\$ 174,375
Less: Loans Payable on roadways	<u> -</u>
	174,375
Unrestricted	<u> 13,919</u>
Total Net Assets	<u><u> \$ 188,294</u></u>

NOTE 7: CONTINGENCIES

As of June 30, 2002, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

County of San Bernardino Special Districts
County Service Area No. 70 Zone R-40 Upper North Bay Lake Arrowhead
Budgetary Comparison Schedule – Special Revenue Fund (RGW)
For the Year Ended June 30, 2002

SCHEDULE ONE

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget Positive(negative)
Budgetary fund balance July 1, 2001	\$ -	\$ -	\$ -	\$ -
Resources (inflows):				
Special assessments	18,000	18,000	16,998	(1,002)
Use of money and property	-	-	212	212
Amounts available for appropriation	18,000	18,000	17,210	(790)
Charges to appropriations (outflows)				
Services and supplies	18,000	18,000	3,291	14,709
Total charges to Appropriations	18,000	18,000	3,291	14,709
Budgetary Fund Balance, June 30, 2002	\$ -	\$ -	\$ 13,919	\$ 13,919

COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
COUNTY SERVICE AREA NO. 79
GREEN VALLEY LAKE
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

Prepared By:

Internal Audits Section
Office of the Auditor/Controller-Recorder
December 19, 2002

**County of San Bernardino Special Districts
County Service Area No. 79
Green Valley Lake
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AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

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ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

December 19, 2002

Emil A. Marzullo, Director
Office of Special Districts
157 W. Fifth Street, Second Floor
San Bernardino, CA 92415-0450

**SUBJECT: AUDIT OF COUNTY SERVICE AREA NO. 79 – GREEN VALLEY LAKE
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of County Service Area No. 79 – Green Valley Lake for the fiscal year ended June 30, 2002.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the remaining aggregate fund information of the County of San Bernardino Special District County Service Area No. 79 – Green Valley Lake (CSA), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2002, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit

includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the remaining aggregate fund information of the County of San Bernardino Special District County Service Area No. 79 – Green Valley Lake, as of June 30, 2002, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

As discussed in Note 1 to the basic financial statements, the accompanying financial statements reflect certain changes in the presentation of financial data required as a result of the implementation of Governmental Accounting Standards Board Statement Nos. 34, 37 and 38 for the year ended June 30, 2002. This results in a change in the format and content of the basic financial statements.

The accompanying budgetary comparison information on pages 25 – 26 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The County of San Bernardino Special District County Service Area No. 79 – Green Valley Lake has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Larry Walker
Auditor/Controller-Recorder

By: Barbara Redding, CPA, CGFM
Internal Audits Manager

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County of San Bernardino
County Service Area No. 79 – Green Valley Lake
Statement of Net Assets
June 30, 2002

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 115,955	\$ 522,412	\$ 638,367
Accounts receivable	-	94,444	94,444
Taxes receivable	5,406	1,614	7,020
Interest receivable	1,377	5,046	6,423
Other receivables	6,183	-	6,183
Due from other governments	-	4,545	4,545
Total current assets	128,921	628,061	756,982
Noncurrent Assets:			
Capital assets:			
Improvements to land	59,388	-	59,388
Infrastructure	131,675	-	131,675
Construction in progress	-	260,016	260,016
Utility plant in service	-	4,647,780	4,647,780
Structures and improvements	128,091	-	128,091
Equipment and vehicles	226,345	74,596	300,941
Less accumulated depreciation	(288,940)	(2,475,050)	(2,763,990)
Total noncurrent assets	256,559	2,507,342	2,763,901
Total assets	\$ 385,480	\$ 3,135,403	\$ 3,520,883
LIABILITIES			
Current liabilities:			
Salaries and benefits payable	\$ 861	\$ -	\$ 861
Accounts payable	-	47,864	47,864
Accounts payable - encumbered	-	9,592	9,592
Due to other governments	1,367	-	1,367
Total current liabilities	2,228	57,456	59,684
Noncurrent liabilities:			
Total liabilities	2,228	57,456	59,684
NET ASSETS			
Invested in capital assets	256,559	2,507,342	2,763,901
Restricted	200	(9,592)	(9,392)
Unrestricted	126,493	580,197	706,690
Total net assets	383,252	3,077,947	3,461,199
Total liabilities and net assets	\$ 385,480	\$ 3,135,403	\$ 3,520,883

The notes to the financial statements are an integral part of this statement

County of San Bernardino
County Service Area No. 79 - Green Valley Lake
Statement of Activities
For the Year Ended June 30, 2002

	Governmental Activities	Business-type Activities	Total
EXPENSES			
Salaries and benefits	\$ 33,521	\$ 273,005	\$ 306,526
Services and supplies	64,096	361,205	425,301
Operating transfers out	40,000	-	40,000
Depreciation	9,182	111,331	120,513
Total expenses	<u>146,799</u>	<u>745,541</u>	<u>892,340</u>
PROGRAM REVENUES			
Charges for services	-	487,394	487,394
Other services	-	2,881	2,881
Total program revenues	<u>-</u>	<u>490,275</u>	<u>490,275</u>
Net program (expense) revenue	<u>(146,799)</u>	<u>(255,266)</u>	<u>(402,065)</u>
GENERAL REVENUES			
Property taxes	102,266	33,973	136,239
Government aid	6,850	-	6,850
Interest	6,254	22,877	29,131
Other revenues	6,183	20,529	26,712
Total general revenues	<u>121,553</u>	<u>77,379</u>	<u>198,932</u>
Change in net assets	(25,246)	(177,887)	(203,133)
Net assets - beginning (restated)	<u>408,498</u>	<u>3,255,834</u>	<u>3,664,332</u>
Net assets - ending	<u>\$ 383,252</u>	<u>\$ 3,077,947</u>	<u>\$ 3,461,199</u>

The notes to the financial statements are an integral part of this statement

County of San Bernardino
County Service Area No. 79 - Green Valley Lake
Balance Sheet
Governmental Funds
June 30, 2002

	Fire (SOV)	Road (CBR, RCP)	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 95,956	19,999	\$ 115,955
Interest receivable	1,199	178	1,377
Taxes receivable	5,406	-	5,406
Other receivables	6,183	-	6,183
	<hr/>		
Total assets	\$ 108,744	\$ 20,177	\$ 128,921
<hr/>			
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and benefits payable	\$ 861	-	\$ 861
Due to other governments	1,367	-	1,367
Total liabilities	2,228	-	2,228
<hr/>			
Fund balances:			
Reserved - imprest	200	-	200
Unreserved	106,316	20,177	126,493
Total fund balances	106,516	20,177	126,693
<hr/>			
Total liabilities and fund balances	\$ 108,744	\$ 20,177	
<hr/>			

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	<hr/> 256,559
Net assets of governmental activities	<hr/> \$ 383,252

The notes to the financial statements are an integral part of this statement

County of San Bernardino
County Service Area No. 79 - Green Valley Lake
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2002

	Fire (SOV)	Road (CBR, RCP)	Total Governmental Funds
REVENUES			
Property taxes	\$ 95,995	-	\$ 95,995
Special assessments	-	6,147	6,147
Other taxes	113	12	125
Government aid	6,850	-	6,850
Interest	5,493	761	6,254
Other revenues	6,183	-	6,183
Total revenues	<u>114,634</u>	<u>6,920</u>	<u>121,554</u>
EXPENDITURES			
Salaries and benefits	31,152	2,369	33,521
Professional services	6,709	338	7,047
Services and supplies	51,436	2,485	53,921
Utilities	2,995	-	2,995
Rents and leases	134	-	134
Total expenditures	<u>92,426</u>	<u>5,192</u>	<u>97,618</u>
Excess of revenues over (under) expenditures	<u>22,208</u>	<u>1,728</u>	<u>23,936</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	(40,000)	-	(40,000)
Total other financing sources (uses)	<u>(40,000)</u>	<u>-</u>	<u>(40,000)</u>
Net change in fund balances	(17,792)	1,728	(16,064)
Fund balances - beginning	<u>124,308</u>	<u>18,449</u>	<u>142,757</u>
Fund balances - ending	<u>\$ 106,516</u>	<u>\$ 20,177</u>	<u>\$ 126,693</u>

The notes to the financial statements are an integral part of this statement

**County of San Bernardino
County Service Area No. 79 - Green Valley Lake
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2002**

Net change in fund balances - total governmental funds	\$ (16,064)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.

(9,182)

Change in net assets of governmental activities	<u>\$ (25,246)</u>
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The notes to the financial statements are an integral part of this statement

County of San Bernardino
County Service Area No. 79 - Green Valley Lake
Statement of Net Assets
Proprietary Funds
June 30, 2002

	Enterprise Fund
	Sewer
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 522,412
Accounts receivable	94,444
Taxes receivable	1,614
Interest receivable	5,046
Due from other governments	4,545
Total current assets	<u>628,061</u>
Noncurrent assets:	
Capital assets:	
Construction in progress	260,016
Utility plant in service	4,647,780
Equipment and vehicles	74,596
Less accumulated depreciation	<u>(2,475,050)</u>
Total noncurrent assets	<u>2,507,342</u>
Total Assets	<u><u>\$ 3,135,403</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	47,865
Accounts payable - encumbered	<u>9,591</u>
Total current liabilities	<u>57,456</u>
Noncurrent liabilities:	
Loan payable	<u>-</u>
Total noncurrent liabilities	<u>-</u>
Total liabilities	<u>57,456</u>
NET ASSETS	
Invested in capital assets	2,507,342
Restricted	(9,592)
Unrestricted	<u>580,197</u>
Total net assets	<u>3,077,947</u>
Total liabilities and net assets	<u><u>\$ 3,135,403</u></u>

The notes to the financial statements are an integral part of this statement

County of San Bernardino
County Service Area No. 79 - Green Valley Lake
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2002

	Enterprise Fund
	<u>Sewer</u>
OPERATING REVENUES	
Charges for services	\$ 487,394
Other services	2,880
Total operating revenues	<u>490,274</u>
OPERATING EXPENSES	
Salaries and benefits	273,005
Professional services	247,090
Services and supplies	95,832
Utilities	18,282
Depreciation	111,331
Total operating expenses	<u>745,540</u>
Operating income (loss)	<u>(255,266)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest	22,877
Property taxes	1,319
Special assessments	25,642
Other taxes	3,527
Gain on sale of fixed assets	10,362
Other nonoperating revenues	13,652
Total nonoperating revenues (expenses)	<u>77,379</u>
Change in net assets	(177,887)
Net assets - beginning (restated)	<u>3,255,834</u>
Net assets - ending	<u><u>\$ 3,077,947</u></u>

The notes to the financial statements are an integral part of this statement

County of San Bernardino
County Service Area No. 79 - Green Valley Lake
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2002

	Enterprise Fund
	<u>Sewer</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from user charges	\$ 483,170
Payments to employees for services	(273,005)
Payments to suppliers for goods and services	(304,345)
Other payments	-
Net cash provided (used) by operating activities	<u>(94,180)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Taxes received	26,824
Other receipts	15,320
Net cash provided (used) by noncapital financing activities	<u>42,144</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
NONE	
CASH FLOWS FROM INVESTING ACTIVITIES	
Increase in fair market value of investments	481
Sale of fixed assets	11,713
Interest	23,106
Net cash provided (used) by investing activities	<u>35,300</u>
Net increase (decrease) in cash and cash equivalents	(16,736)
Cash and cash equivalents - beginning	<u>539,148</u>
Cash and cash equivalents - ending	<u><u>\$ 522,412</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (255,266)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation expense	111,331
Change in assets and liabilities:	
Increase in receivables, net	(7,700)
Increase in accounts and other payables	57,455
Net cash provided (used) by operating activities	<u><u>\$ (94,180)</u></u>

The notes to the financial statements are an integral part of this statement

County of San Bernardino
County Service Area No. 79 - Green Valley Lake
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2002

	Agency Fund 1915 Bond Act
ASSETS	
Cash and cash equivalents	\$ 598,047
Total assets	\$ 598,047
LIABILITIES	
Due to bondholders	\$ 598,047
Total liabilities	\$ 598,047

The notes to the financial statements are an integral part of this statement

**County of San Bernardino Special Districts
County Service Area No. 79 – Green Valley Lake
Notes to the Financial Statements
June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The County Service Area (CSA) No. 79 – Green Valley Lake (the District) – is a special district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter (the County). The County was established in 1852 as a legal subdivision of the State of California.

The District was established by an act of the Board of Supervisors of the County of San Bernardino on September 7, 1971 with the active powers of fire (inspection, suppression, protection, first aid, and rescue), sewer (collection and disposal), and water and road (maintenance and improvements). Currently, the governmental reporting entity consists of fire protection, emergency medical services, and an enterprise fund (sewer) for the community of Green Valley Lake. The district also provides maintenance for approximately one mile of paved road in “The Meadow” area of Green Valley Lake.

The District is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County’s financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit’s board, and either (i) the County has the ability to impose its will on the organization, or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of the County Service Area No. 79 and are not intended to present the financial position of the County taken as a whole.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general*

**County of San Bernardino Special Districts
County Service Area No. 79 – Green Valley Lake
Notes to the Financial Statements
June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

revenues rather than as program revenues. Likewise, general revenues include all taxes.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as taxes and federal and state grants, the County expanded its definition of “available” to 9 months. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *special revenue fund* labeled “Fire” is the government’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue and capital project funds* labeled “Road” provides road maintenance and repairs to the unpaved road in “The Meadow” area of Green

County of San Bernardino Special Districts
County Service Area No. 79 – Green Valley Lake
Notes to the Financial Statements
June 30, 2002

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Valley Lake.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the CSA enterprise fund is charges to customers for sanitation services. Operating expenses for enterprise funds include the cost of salaries and benefits, services and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

The government reports the following major proprietary fund:

The *enterprise fund* labeled "Sewer" account for the activities of the CSA. The CSA operates the sewer under the administration of Water/Sewer.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Agency funds are used to account for assets held by the District as an agent for individuals, private organizations, other governments and/or other funds. The funds are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations. The modified accrual of accounting is used for the agency fund. The fund is used to account for the accumulation of resources for, and payment of, the bonds issued under the Improvement Act of 1915 for certain sewer improvements.

Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

County of San Bernardino Special Districts
County Service Area No. 79 – Green Valley Lake
Notes to the Financial Statements
June 30, 2002

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." All accounts receivable are shown net of an allowance for uncollectibles when applicable.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

County of San Bernardino Special Districts
County Service Area No. 79 – Green Valley Lake
Notes to the Financial Statements
June 30, 2002

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Property, plant and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40
Structures & improvements	5 – 45
Equipment and vehicles	6 – 15
Utility Plant in Service	45

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Employee Compensated Absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a current liability. The District is not obligated to pay for unused sick leave if an employee terminates or retires. There were no compensated absences as of June 30, 2002.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

County of San Bernardino Special Districts
County Service Area No. 79 – Green Valley Lake
Notes to the Financial Statements
June 30, 2002

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$9,182 difference are as follows:

Capital outlay	\$ 0
Depreciation expense	<u>9,182</u>
Net adjustment to decrease <i>net change in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u><u>\$ (9,182)</u></u>

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

County of San Bernardino Special Districts
County Service Area No. 79 – Green Valley Lake
Notes to the Financial Statements
June 30, 2002

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Changes in accounting principle

During the 2001-02 fiscal year, the CSA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*, and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of July 1, 2001. The above changes have resulted in a change to the format and content of the CSA's basic financial statements.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2002.

NOTE 3: RECEIVABLES

At June 30, 2002, receivables were composed of the following:

	Governmental		Business-Type
Accounts	\$ -	\$	94,444
Taxes	5,406		1,614
Interest	1,377		5,046
Other	6,183		-
Due from other governments	-		4,545
Net Total Receivables	\$ 12,966	\$	105,649

County of San Bernardino Special Districts
County Service Area No. 79 – Green Valley Lake
Notes to the Financial Statements
June 30, 2002

NOTE 4: CAPITAL ASSETS

The costs of building and acquiring capital assets (land, buildings, vehicles and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the statement of net assets includes those capital assets among the assets of County Service Area No. 79 as a whole, and their original costs are expensed annually over their useful lives. Capital asset activity for governmental and business-type activities for the year ended June 30, 2002 follows.

	Beginning Balance (as restated)	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets, being depreciated				
Improvements to land	\$ 59,388	-	-	\$ 59,388
Structures and improvements	128,091	-	-	128,091
Infrastructure	131,675	-	-	131,675
Vehicles	220,897	-	-	220,897
Equipment	5,448	-	-	5,448
Total capital assets, being depreciated	545,499	-	-	545,499
Less accumulated depreciation for:				
Improvements to land	9,155	1,320	-	10,475
Structures and improvements	35,750	2,846	-	38,596
Infrastructure	29,627	3,292	-	32,919
Vehicles	199,778	1,724	-	201,502
Equipment	5,448	-	-	5,448
Total accumulated depreciation	279,758	9,182	-	288,940
Total capital assets, being depreciated, net	265,741	(9,182)	-	256,559
Governmental activities capital assets, net	\$ 265,741	\$ (9,182)	-	\$ 256,559

	Beginning Balance (as restated)	Additions	Deletions	Ending Balance
Business-type activities:				
Capital assets, not being depreciated				
Construction in progress	\$ 255,605	\$ 13,630	\$ (9,220)	\$ 260,016
Total capital assets, not being depreciated	255,605	13,630	(9,220)	260,016
Capital assets, being depreciated				
Utility plant in service (imp to land)	4,647,780	-	-	4,647,780
Vehicles	23,324	-	-	23,324
Equipment	51,272	-	-	51,272
Total capital assets, being depreciated	4,722,376	-	-	4,722,376
Less accumulated depreciation for:				
Utility plant in service	2,314,667	103,284	-	2,417,951
Vehicles	16,846	3,888	-	20,734
Equipment	32,206	4,159	-	36,365
Total accumulated depreciation	2,363,719	111,331	-	2,475,050
Total capital assets, being depreciated, net	2,358,657	(111,331)	-	2,247,326
Business-type activities capital assets, net	\$ 2,614,262	\$ (97,701)	\$ (9,220)	\$ 2,507,342

County of San Bernardino Special Districts
County Service Area No. 79 – Green Valley Lake
Notes to the Financial Statements
June 30, 2002

NOTE 4: CAPITAL ASSETS - *Continued*

At June 30, 2002, construction in progress represents the following projects:

Project Title	Budget	YTD Expenses	Projected Completion Date
Complex Facility Plan	9,151	9,085	2003
Force Main Project	300,000	250,931	2003
Total		<u>\$ 260,016</u>	

NOTE 5: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). The plan provides retirement, death, and disability benefits to members. Although legally established as a single employer plan for the County of San Bernardino (which includes the District), the organizations listed below were added later:

City of Big Bear Lake
City of Chino Hills
California State Association of Counties
San Bernardino County Law Library
Crest Forest Fire Protection District
Mojave Desert Air Quality Management District (MDAQMD)
South Coast Air Quality Management District (AQMD)
Local Agency Formation Commission (LAFCO)

The District and others covered under the plan are collectively referred to as the "Participating Members." The plan is governed by the San Bernardino County Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 West Hospitality Lane, San Bernardino, California 92415-0014.

**County of San Bernardino Special Districts
County Service Area No. 79 – Green Valley Lake
Notes to the Financial Statements
June 30, 2002**

NOTE 5: RETIREMENT PLAN - *Continued*

Funding Policy

Participating members are required by statute (Sections 31621, 31521.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry into the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 7.11% - 10.58% of their annual covered salary of which the District pays approximately 7%. Employers are required to contribute 6.67% - 14.46% of the current year covered payroll. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Section 31453 of the 1937 Act.

NOTE 6: SELF INSURANCE

The District participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The District did not incur any insurance costs for annual premiums for the year ended June 30, 2002.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II. Workers compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance which are accounted for in the General Fund of the County of San Bernardino.

The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investments in the agreements totaled \$42,590,000 at June 30, 2002.

County of San Bernardino Special Districts
County Service Area No. 79 – Green Valley Lake
Notes to the Financial Statements
June 30, 2002

NOTE 6: INSURANCE - Continued

The total County claims liability of \$95,288,000 reported at June 30, 2002 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the claims liability amount in fiscal years 2001 and 2002 were (in thousands):

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at Fiscal Year-end</u>
2000-01	\$ 52,853	13,384	(5,065)	\$ 80,223
2001-02	61,172	61,832	(27,716)	95,288

County Service Area No. 79 did not have any outstanding liability claims filed against the District for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and worker's compensation claims for the year ending June 30, 2002.

NOTE 7: TRANSFERS IN/OUT

Interfund Transfers In/Out transactions are used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital project funds. At June 30, 2002, the District made the following interfund transfers in and out:

<u>Fund</u>	<u>Description</u>	<u>Purpose</u>	<u>Amount</u>
EFP	Sewer Operations	Transfer from Reserves to Operations	\$ 93,008
EFS	Capital Improvement Reserve	Transfer from Reserves to Operations	(93,008)
EFS	Capital Improvement Reserve	Transfer from Reserves to Operations	144,319
EFP	Sewer Operations	Transfer from Reserves to Operations	(144,319)
SKK	Equipment Replacement	Equipment Replacement Benefit	30,000
SOV	General - Fire	Equipment Replacement Benefit	(30,000)
SOV	General - Fire	Capital Accumulation Reserve Account	30,000
SKK	Equipment Replacement	Capital Accumulation Reserve Account	(30,000)
SOV	General - Fire	Capital Accumulation Reserve Account	40,000
SKK	Equipment Replacement	Capital Accumulation Reserve Account	(40,000)
Net Interfund Transfers			<u>\$ -</u>

County of San Bernardino Special Districts
County Service Area No. 79 – Green Valley Lake
Notes to the Financial Statements
June 30, 2002

NOTE 8: CONTINGENCIES

As of June 30, 2002, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

NOTE 9: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, established limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2001-2002 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

NOTE 10: SPECIAL ASSESSMENT ACCOUNTING – 1915 ACT BONDS

The District issued bonds under the Improvement Act of 1915 (the “bonds”) to finance certain sewer improvements. The District reports 1915 Act Bonds according to the provisions of the Government Accounting Standards Boards Statement No. 6. The bonds are not a direct liability of the District and therefore are not reported on the District’s financial statements. The portion of the Utility Plant in Service financed by Special Assessments amounting to \$598,047, is reported as Invested in Capital Assets, Net of Related Debt in the Enterprise Fund. The liability for each Assessment District at June 30, 2002 is zero.

NOTE 11: NET ASSETS

Net assets represent the difference between assets and liabilities. The net asset amounts were as follows:

	Governmental Activities	Business-type Activities
Invested in Capital Assets, Net of Related Debt: June 30, 2002		
Net Improvements to Land, Infrastructure, Construction in Progress, Utility Plant in Service, Structures and Improvements, and Equipment & Vehicles	\$ 256,559	\$ 2,507,342
Add: Prior year contributed capital	-	-
Less: Revolving loans payable	-	-
	256,559	2,507,342
Restricted	200	(9,592)
Unrestricted	126,493	580,197
Total Net Assets	\$ 383,252	\$ 3,077,947

**County of San Bernardino Special Districts
County Service Area No. 79 – Green Valley Lake
Notes to the Financial Statements
June 30, 2002**

NOTE 12: PRIOR PERIOD ADJUSTMENT TO FUND BALANCE

On July 1, 2001 fund balance was understated by \$ 260,800. There has been a restatement of fund balance with a prior period adjustment recorded to recognize accumulated depreciation over stated at June 30, 2001.

The restatement of fund balance is as follows:

Fund Balance previously reported at June 30, 2001	\$	2,995,034
Prior Period Adjustment to record over accumulation of depreciation		<u>260,800</u>
Fund Balance Restated, June 30, 2001	\$	<u><u>3,255,834</u></u>

Required Supplementary Information
County of San Bernardino
County Service Area No. 79 - Green Valley Lake
Budgetary Comparison Schedule - Special Revenue Funds
June 30, 2002

	Special Revenue Fund			
	Fire (SOV)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES:				
Property taxes	95,209	95,209	96,108	899
Use of money and property	5,000	5,000	5,493	493
Federal aid	-	-	6,850	6,850
Other revenue	-	-	6,183	6,183
Total Revenues	100,209	100,209	114,634	14,425
EXPENDITURES:				
Salaries and benefits	39,009	39,009	31,152	7,857
Services and supplies	79,175	79,175	61,274	17,901
Reserves and contingencies	66,133	66,133	-	66,133
Total Expenditures	184,317	184,317	92,426	91,891
OTHER FINANCING SOURCES (USES)				
Transfers Out	(40,000)	(40,000)	(40,000)	-
Total Other Financing Sources (Uses)	(40,000)	(40,000)	(40,000)	-
Net Change in Fund Balances	<u>\$ (124,108)</u>	<u>\$ (124,108)</u>	<u>\$ (17,792)</u>	<u>\$ (77,466)</u>
Fund Balances - beginning			124,308	
Fund Balances - ending			<u>\$ 106,516</u>	

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 79 - Green Valley Lake
Budgetary Comparison Schedule - Special Revenue Funds
For the Year Ended June 30, 2002

	Special Revenue Fund			
	Road (RCP)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES:				
Property taxes	-	6,600	6,159	(441)
Use of money and property	500	500	761	261
Current services	6,600	-	-	-
Total Revenues	7,100	7,100	6,920	(180)
EXPENDITURES:				
Salaries and benefits	2,369	2,369	2,369	-
Services and supplies	12,944	12,944	2,823	10,121
Reserves and contingencies	8,689	8,689	-	8,689
Total Expenditures	24,002	24,002	5,192	18,810
OTHER FINANCING SOURCES (USES)				
NONE				
Net Change in Fund Balances	\$ (16,902)	\$ (16,902)	\$ 1,728	\$ (18,990)
Fund Balances - beginning			18,449	
Fund Balances - ending			\$ 20,177	

COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
CENTRAL VALLEY FIRE PROTECTION DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

Prepared By:
Internal Audits Section
Office of the Auditor/Controller-Recorder
March 25, 2003

**County of San Bernardino
Central Valley Fire Protection District**

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AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

AUDITOR/CONTROLLER • 222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

March 25, 2003

Peter Hills, Fire Chief/Fire Warden
Office of Special Districts
157 West Fifth Street
San Bernardino, CA 92415 – 0451

**SUBJECT: AUDIT OF CENTRAL VALLEY FIRE PROTECTION DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of Central Valley Fire Protection District for the fiscal year ended June 30, 2002.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities and the aggregate fund information of the Central Valley Fire Protection District (District), a component unit of the County of San Bernardino, California, as of June 30, 2002, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall

financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the governmental activities and the remaining aggregate fund information of the County of San Bernardino Central Valley Fire Protection District as of June 30, 2002 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts

As discussed in Note 1 to the financial statements, the accompanying financial statements reflect certain changes in the presentation of financial data required as a result of the implementation of Governmental Accounting Standard Board Statement Nos. 34, 37, and 38 for the year ended June 30, 2002. This results in a change in the format and content of the basic financial statements.

The accompanying budgetary comparison information on page 13 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The County of San Bernardino Special District- Central Valley Fire Protection District has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Larry Walker
Auditor/Controller-Recorder

Copies to:

County Administrative Office
Board of Supervisors
Grand Jury (2)

By: Barbara K. Redding, CPA, CGFM
Internal Audits Manager

Audit File (3)

Date Report Distributed: 5/6/03

LDW:DVB:SMS:BKR:dlp1

**County of San Bernardino
Central Valley Fire Protection District
Statement of Net Assets
June 30, 2002**

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,835,176
Taxes receivable	532,400
Interest receivable	24,879
Due from other governments	988,540
Total current assets	<u>3,380,995</u>
Noncurrent assets:	
Capital assets:	
Land	31,054
Improvements to land	54,425
Structures	940,547
Vehicles	4,066,354
Equipment	257,412
Less accumulated depreciation	<u>(2,980,064)</u>
Total non current assets	<u>2,369,728</u>
Total assets	<u><u>\$ 5,750,723</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 4,840
Salaries and benefits	793,668
Due to other governments	37,682
Employee compensated absences	927,316
Total current liabilities	<u>1,763,506</u>
Noncurrent liabilities:	
	<u>-</u>
Total liabilities	<u><u>1,763,506</u></u>
NET ASSETS	
Invested in capital assets, net of related debt	2,369,728
Unrestricted	<u>1,617,489</u>
Total net assets	<u>3,987,217</u>
Total liabilities and net assets	<u><u>\$ 5,750,723</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Central Valley Fire Protection District
Statement of Activities
For the Fiscal Year Ended June 30, 2002**

	Governmental Activities
EXPENSES	
Salaries and benefits	\$ 10,441,181
Services and supplies	2,264,980
Professional services	618,251
Rents and leases	8,119
Depreciation	289,150
Total expenses	<u>13,621,681</u>
PROGRAM REVENUES	
Government aid and grants	87,324
Charges for services	3,139,197
Total program revenues	<u>3,226,521</u>
Net program (expense) revenue	<u>(10,395,160)</u>
GENERAL REVENUES	
Property Taxes	10,396,963
Interest	93,629
Rents and concessions	11,000
Miscellaneous	4,484
Total general revenues	<u>10,506,076</u>
Change in net assets	110,916
Net assets beginning (restated)	3,876,301
Net assets ending	<u><u>\$ 3,987,217</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Central Valley Fire Protection District
Balance Sheet – Governmental Funds
June 30, 2002**

	Governmental Activities Fire Protection
ASSETS	
Cash and cash equivalents	\$ 1,835,176
Taxes receivable	532,400
Interest receivable	24,879
Due from other governments	988,541
Total assets	<u>\$ 3,380,996</u>
 LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 4,840
Salaries and benefits	793,668
Due to other governments	37,682
Total liabilities	<u>836,190</u>
 Fund Balances:	
Unreserved	1,495,829
Reserved for Encumbrances	<u>1,048,977</u>
Total fund balances	<u>2,544,806</u>
 Amounts reported for <i>governmental activities</i> in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	2,369,728
Long term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds Balance Sheet	<u>(927,317)</u>
Net assets of governmental activities	<u>\$ 3,987,217</u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Central Valley Fire Protection District
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2002**

	Total Governmental Funds
REVENUES	
Property Taxes	\$ 10,006,614
Other Taxes	390,350
Interest	93,629
Governmental Aid	87,324
Charges for services	3,139,197
Rents and concessions	11,000
Miscellaneous	4,484
Total revenues	<u>13,732,598</u>
EXPENDITURES	
Salaries and benefits	10,441,181
Services and supplies	2,264,980
Professional services	618,251
Rents and leases	8,119
Capital Outlay	1,489,515
Total expenditures	<u>14,822,046</u>
Net Change in Fund Balances	(1,089,448)

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.

Fund Balances - beginning	3,876,301
----------------------------------	-----------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.

1,200,364

Net assets of governmental activities

\$ 3,987,217

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Central Valley Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Central Valley Fire District (the District) is a fire protection district located within the County of San Bernardino. The Fire Protection District has governmental powers as established by the San Bernardino County Government Charter (the county). The County of San Bernardino was established in 1852 as a legal subdivision of the State of California. Central Valley Fire Protection District's powers are exercised through a Board of Supervisors (the "Board"), which is the governing body for the County.

The District was established by an act of the Board of Supervisors of the County of San Bernardino on March 11, 1974 with active powers of fire protection and emergency medical services for the communities of Fontana, Muscoy, and Bloomington.

The District is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (i) the County has the ability to impose its will on the organization or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of Central Valley Fire Protection and are not intended to present the financial position of the County taken as a whole.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those

**County of San Bernardino
Central Valley Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Government-wide and fund financial statements

that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and income from rental of buildings. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as taxes and federal and state grants, the County expanded its definition of "available" to 9 months. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

**County of San Bernardino
Central Valley Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Measurement focus, basis of accounting, and financial statement presentation

Central Valley Fire Protection District utilizes special revenue funds. The funds account for all financial resources of the general government.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Currently the District does not have any proprietary or fiduciary fund types. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." All accounts receivable are shown net of an allowance for uncollectibles when applicable.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

**County of San Bernardino
Central Valley Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$ 5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Structures with an initial cost of \$ 100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40
Structures and Improvements	5 - 45
Equipment and vehicles	6 - 15
Utility Plant in Service	45

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Employee Compensated Absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a current liability. The District is not obligated to pay for unused sick leave if an employee terminates or retires.

**County of San Bernardino
Central Valley Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Compensated absences activity for the year ended June 30, 2002 was as follows:

<u>Beginning Balance (Restated)</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
\$ 877,417	\$ 463,260	(\$ 413,361)	\$ 927,316

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$ 1,200,364 difference are as follows:

Capital Outlay	\$ 1,489,514
Depreciation Expense	(289,150)
Net adjustment to decrease <i>net change in fund Balances-total governmental funds</i> to arrive at <i>Changes in net assets governmental activities</i>	<u>\$ 1,200,364</u>

**County of San Bernardino
Central Valley Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 – 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub –object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

Changes in accounting principle

During the 2001-02 fiscal year, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*; Statement No. 37, *Basis Financial Statements – and Management's Discussion and Analysis – For State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*, and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of July 1, 2001. The above changes have resulted in a change to the format and content of the District's basic financial statements.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings

**County of San Bernardino
Central Valley Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 2: CASH AND CASH EQUIVALENTS (*Continued*)

through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2002.

NOTE 3: CAPITAL ASSETS

The costs of building and acquiring capital assets (land, buildings, vehicles and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the statement of net assets includes those capital assets among the assets of Central Valley Fire Protection District as a whole, and their original costs are expensed annually over their estimated useful lives. Capital assets activity for governmental activities for the year ended June 30, 2002 follows.

	Balance		Ending Balance	
	July 1, 2001	Increases	Decreases	June 30, 2002
Governmental Activities				
<i>Capital assets, not being depreciated</i>				
Land	\$ 31,054	\$ -	\$ -	\$ 31,054
Total capital assets, not being depreciated	31,054			31,054
<i>Capital assets being depreciated</i>				
Buildings	940,547	-	-	940,547
Improvements to Land	54,425	-	-	54,425
Vehicles	2,716,843	1,361,511	12,000	4,066,354
Equipment	126,793	130,619	-	257,412
Total capital assets being depreciated	3,838,608	1,492,130	(12,000)	5,318,738
Less accumulated depreciation for:				
Buildings	(362,088)	(20,859)	-	(382,947)
Improvements to Land	(45,287)	(336)	-	(45,623)
Vehicles	(2,170,471)	(254,246)	-	(2,424,717)
Equipment	(113,068)	(13,709)	-	(126,777)
Total accumulated depreciation	(2,690,914)	(289,150)	-	(2,980,064)
Total capital assets being depreciated				
net	1,147,694	1,202,980	(12,000)	2,338,674
Governmental activities capital assets,				
net	\$ 1,178,748	\$ 1,202,980	\$ (12,000)	\$ 2,369,728

**County of San Bernardino
Central Valley Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 4: RESTATEMENT OF COMPENSATED ABSENCES PAYABLE

On July 1, 2001 compensated absences payable was understated by \$874,256. There has been a restatement of compensated absences to recognize the liability at June 30, 2001 of 90 safety employees. The restatement is as follows:

Compensated absences previously reported at June 30, 2001	\$ 3,161
Prior period adjustment to record underaccrued liability for compensated absences	874,256
Compensated absences restated, July 1, 2001	<u>\$ 877,417</u>

NOTE 5: PRIOR PERIOD ADJUSTMENT BEGINNING FUND BALANCE/NET ASSETS

In the prior year, fund balance/net assets was understated because of changes made to reflect Capital Assets in Governmental activities (as part of GASB 34, see Note 1). Fund balance/net assets were also overstated because of a prior period accounting error in the accrual of compensated absences (Note 4). Below are the effects of these changes:

Fund Balance as previously reported on July 1, 2001	\$ 3,634,254
Net Capital Assets at June 30, 2001	1,178,748
	<u>4,813,002</u>
Amount by which depreciation expense exceeds capital outlay prior year	(59,284)
Long term liabilities at June 30, 2001(Restated)	(877,417)
Payment is deferred until future years.	<u>(877,417)</u>
Net Assets at June 30, 2001	<u>\$ 3,876,301</u>

NOTE 6: NET ASSETS ENDING JUNE 30, 2002

Net assets represent the difference between assets and liabilities. The net asset amounts were as follows:

	Governmental Activities June 30, 2002
Invested in Capital Assets, Net of Related Debt:	
Net Land, Buildings, Improvements to Land, Vehicles and Equipment	\$ 2,369,728
	2,369,728
Unrestricted	1,617,489
Total Net Assets	<u>\$ 3,987,217</u>

**County of San Bernardino
Central Valley Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 7: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). The plan provides retirement, death, and disability benefits to members. Although legally established as a single employer plan for the County of San Bernardino (which includes the District), the organizations listed below were added later:

City of Big Bear Lake
City of Chino Hills
California State Association of Counties
San Bernardino County Law Library
Crest Forest Fire Protection District
Mojave Desert Air Quality Management District (MDAQMD)
South Coast Air Quality Management District (AQMD)
Local Area Formation Commission (LAFCO)

The District and others covered under the plan are collectively referred to as the "Participating Members." The plan is governed by the San Bernardino County Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report which may be obtained by contacting the Board of Retirement, 348 West Hospitality Lane, San Bernardino, California 92415-0014.

Funding Policy

Participating members are required by statute (Sections 31621, 31521.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry into the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 7.11% - 10.58% of their annual covered salary of which the District pays approximately 7%. Employers are required to contribute 6.67% - 14.46% of the current year covered payroll. During the year, the District paid \$ 1,327,342 to the plan as the employer's share. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Section 31453 of the 1937 Act.

NOTE 8: PROPOSTION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed

**County of San Bernardino
Central Valley Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 8: PROPOSTION 111 APPROPRIATION LIMITS (*Continued*)

the proceeds of taxes received by the District during the 2001-2002 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

NOTE 9: SELF INSURANCE

The District participates in a Public Entity Risk Pool Sponsored by the County of San Bernardino (County). The only insurance costs the District will incur will be for annual premiums paid to the Risk Management Fund. Insurance premiums totaled \$ 67,124 for the year ended June 30, 2002.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and worker's compensation claims. Public liability claims are self insured for up to \$ 250,000 per occurrence. Excess insurance coverage up to \$ 30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC). Excess Insurance Authority "EIA" Liability Program II. Worker's compensation claims are self insured up to \$ 1 million per occurrence and covered by an independent carrier for the balance up to \$ 2 million for employer's liability and for worker's compensation statutory liability. Property damage claims are self insured on an occurrence basis up to \$ 25,000 and insured by the CSAC EIA Property Programs I and II.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, worker's compensation and medical malpractice programs. Quarterly disbursements are received by the County for reserves and payment of claims. The County's investment in the agreements totaled \$ 42,590,000 at June 30, 2002.

The total County claims liability of \$ 92,288,000 reported at June 30, 2002, is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a

NOTE 9: SELF INSURANCE

liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of

**County of San Bernardino
Central Valley Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 9: SELF INSURANCE (Continued)

the financial statements and the amount of the loss can be reasonably estimated.

Changes in the claims liability amount in fiscal years 2001 and 2002 were (in thousands):

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-end
2000-01	\$ 52,853	13,384	(5,065)	\$ 61,172
2001-02	\$ 61,172	61,832	(27,716)	\$ 95,288

The Central Valley Fire Protection District did not have any outstanding liability claims filed against the District for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and worker's compensation claims for the year ending June 30, 2002.

NOTE 10: FEDERAL AND STATE GRANTS

From time to time the District may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

Required Supplementary Information
County of San Bernardino Valley Fire Protection District
Budgetary Comparison Schedule – Special Revenue Fund
For the Fiscal Year Ended June 30, 2002

Schedule One

Fire Protection District	Budgeted Amounts		Actual Amounts		Variance with
	Original	Final	Budgetary Basis	Final Budget	Positive(negative)
Budgetary fund balance					
July 1, 2001	\$ 2,572,159	\$ 2,572,159	\$ 3,876,301	\$	1,304,142
Resources (inflows)					
Property Taxes	9,568,307	9,568,307	10,396,964		828,657
Use of Money and Property	-	-	93,629		93,629
Other Governmental Aid	-	-	87,324		87,324
Charges for services	2,780,552	2,780,552	3,139,197		358,645
Other Revenue	416,060	416,060	15,484		(400,576)
Amounts available for					-
appropriation	15,337,078	15,337,078	17,608,899		2,271,821
Charges to appropriations (outflows)					
Salaries and Benefits	10,179,900	11,000,186	10,441,181		559,005
Services and Supplies	5,157,178	3,132,091	2,891,350		240,741
Capital Outlay	-	-	1,489,515		(1,489,515)
Total charges to appropriations	15,337,078	14,132,277	14,822,046		(689,769)
Budgetary Fund Balance, June 30					
2002	\$ -	\$ 1,204,801	\$ 2,786,853	\$	1,582,052

AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

AUDITOR/CONTROLLER • 222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830

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San Bernardino, CA 92415-0022 • (909) 387-8306 • Fax (909) 386-8940

LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

April 2, 2003

Peter Hills, County Fire Warden
County Fire Department
157 W. Fifth Street
San Bernardino, CA 92415-0451

**SUBJECT: MANAGEMENT LETTER – CENTRAL VALLEY FIRE DISTRICT
FOR FISCAL YEAR ENDED JUNE 30, 2002**

In compliance with Section 26909 of the California Government Code, we have audited the general purpose financial statements of the Central Valley Fire District for the fiscal year ended June 30, 2002 and have issued our report thereon dated March 25, 2003. In planning and performing our audit of the financial statements, we considered internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. However, we noted certain matters involving internal controls and their operation, which are presented for your consideration.

We do not consider the matter to be a reportable condition under the standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We have not considered internal controls since the date of our report.

These comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve internal controls or result in other operating efficiencies and are summarized as follows:

FINDINGS AND RECOMMENDATIONS

Finding One: Controls over receipts need improvement.

Controls over receipts need to be improved. During a review of cash on hand conducted on October 29, 2002, we noted the following:

- A check received 7 days earlier from the City of Fontana for \$1,054,226.81 had not been deposited.
- Only one of five checks received had been restrictively endorsed.
- Receipts had not been issued for the checks on hand.
- The *Notification of Receipts on File* Form reported the receipts as collected from October 28, 2002 to October 30, 2002, but were actually from July 6, 2002.

The risk of loss is increased when receipts are held for extended periods of time before deposit.

Recommendations

Implement a receipting process that will provide accountability for funds received. This process should include, at a minimum:

- Issuing a receipt when funds are received.
- Restrictively endorsing all checks as soon as received.
- Developing, documenting, and implementing a policy for handling receipts which should address the daily dollar limit for receipts on hand. The policy should also address monitoring activities to ensure that receipts on hand do not exceed this limit.
- Depositing funds promptly, based on the cash handling policy. Make deposits at least weekly and prepare all related documents accurately.

Management's Response

The above recommendations are being implemented.

Finding Two: Petty Cash vouchers were not properly approved nor were all disbursements for allowable purchases.

None of the twelve petty cash vouchers on hand totaling \$225.04 were properly approved. The Fund Custodian approved eleven vouchers and one voucher was not signed. The Fund Custodian is not authorized to approve disbursements. Discussions with the Staff Analyst and a review of the Signature/Fund Custodian Authorization

Forms submitted to the Auditor/Controller-Recorders Office for fiscal year 2002 reveal that at least five individuals at this location have the authority to approve payment vouchers.

County guidelines prohibit the use of the Petty Cash Fund for payment of services. However, petty cash vouchers on hand included one vendor payment of \$15.00 for pest control service and another vendor payment of \$25.45 for fire extinguisher service. Office staff stated that this practice has been in place for some time.

Recommendations

Ensure that all disbursements from the petty cash fund are properly authorized and approved as evidenced by the signature on the voucher. Submit requests for payment of services to the Accounts Payable Section of the Auditor/Controller-Recorder's Office using a payment voucher.

Management's Response

The proper authorized personnel are now approving disbursements and services are no longer being processed via petty cash.

We wish to thank the management and staff for their full cooperation during the audit.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

Copies to:

County Administrative Officer
Board of Supervisors
Grand Jury (2)
Central Valley Fire District

By: **C. J. Adams**
Internal Auditor II
Internal Audits Section

Audit File (3)

Date Report Distributed: 5/29/03

LDW:BKR:CJA:dlp1

COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
FOREST FALLS FIRE PROTECTION DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder
November 6, 2002

**County of San Bernardino Special Districts
Forest Falls Fire Protection District**

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

November 6, 2002

Peter Hills, Fire Chief/Fire Warden
County Fire Department
157 West Fifth Street, Second Floor
San Bernardino, CA 92415-0450

**SUBJECT: AUDIT OF FOREST FALLS FIRE PROTECTION DISTRICT FOR THE
FISCAL YEAR ENDED JUNE 30, 2002**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of Forest Falls Fire Protection District for the fiscal year ended June 30, 2002.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities of the County of San Bernardino Special Districts Forest Falls Fire Protection District, a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2002, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial

statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the County of San Bernardino Special Districts Forest Falls Fire Protection District as of June 30, 2002, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

As discussed in Note 1 to the financial statements, the accompanying financial statements reflect certain changes in the presentation of financial data required as a result of the implementation of Governmental Accounting Standard Board Statement Nos. 34, 37, and 38 for the year ended June 30, 2002. This results in a change in the format and content of the basic financial statements.

The accompanying budgetary comparison information on page 15 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The County of San Bernardino Special Districts Forest Falls Fire Protection District has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Larry Walker
Auditor/Controller-Recorder

Copies to:

County Administrative Office
Board of Supervisors
Grand Jury (2)

By:

Barbara K. Redding, CPA, CGFM
Internal Audits Manager

Audit File (3)
Date Report Distributed: 5/6/03

LDW:BKR:DVB:CDT:dlp1

**County of San Bernardino
Forest Falls Fire Protection District
Statement of Net Assets
June 30, 2002**

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 64,425
Taxes receivable	7,703
Interest receivable	894
Total current assets	<u>73,022</u>
Noncurrent assets:	
Capital assets:	
Land	2,000
Improvements to land	18,951
Equipment and vehicles	382,476
Less accumulated depreciation	<u>(279,808)</u>
Total noncurrent assets	<u>123,619</u>
Total assets	<u><u>\$ 196,641</u></u>
LIABILITIES	
Current liabilities:	
Salaries and benefits payable	\$ 1,148
Accounts payable	<u>2,185</u>
Total current liabilities	3,333
Noncurrent liabilities:	<u>-</u>
Total liabilities	<u>3,333</u>
NET ASSETS	
Invested in capital assets	123,619
Unrestricted	<u>69,689</u>
Total net assets	<u>193,308</u>
Total liabilities and net assets	<u><u>\$ 196,641</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino
Forest Falls Fire Protection District
Statement of Activities
For the Fiscal Year Ended June 30, 2002**

	Governmental Activities
EXPENSES	
Salaries and benefits	\$ 49,429
Services and supplies	81,791
Structures and improvements	29,752
Depreciation expense	19,548
Total expenses	<u>180,520</u>
PROGRAM REVENUES	-
Net program (expense) revenue	<u>(180,520)</u>
GENERAL REVENUES	
Property taxes	136,015
Interest	3,684
Other revenues	320
Total general revenues	<u>140,019</u>
Change in net assets	(40,501)
Net assets - beginning	<u>233,809</u>
Net assets - ending	<u><u>\$ 193,308</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino
Forest Falls Fire Protection District
Balance Sheet
Governmental Funds
June 30, 2002**

	<u>Special Revenue</u> <u>Fire</u> <u>Protection</u>
ASSETS	
Cash and cash equivalents	\$ 64,425
Taxes receivable	7,703
Interest receivable	894
Total assets	<u>\$ 73,022</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Salaries and benefits payable	\$ 1,148
Accounts payable	2,185
Total liabilities	<u>3,333</u>
Fund balances:	
Unreserved	<u>69,689</u>
Total fund balances	69,689
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	<u>123,619</u>
Net assets of governmental activities	<u>\$ 193,308</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino
Forest Falls Fire Protection District
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2002**

	<u>Special Revenue</u> <u>Fire</u> <u>Protection</u>
REVENUES	
Property taxes	\$ 136,015
Interest	3,684
Other revenues	<u>320</u>
Total revenues	<u>140,019</u>
EXPENDITURES	
Salaries and benefits	49,429
Services and supplies	81,791
Structures and improvements	<u>29,752</u>
Total expenditures	<u>160,972</u>
Excess of revenues over (under) expenditures	(20,953)
OTHER FINANCING SOURCES (USES)	<u>-</u>
Net change in fund balances	(20,953)
Fund balances - beginning	<u>90,642</u>
Fund balances - ending	<u><u>\$ 69,689</u></u>

**Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities**

Net change in fund balances – total governmental funds \$ (20,953)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period. (19,548)

Change in net assets of governmental activities \$ (40,501)

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino
Forest Falls Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

Forest Falls Fire Protection District (the District) is a special district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter. The County of San Bernardino (the County) was established in 1852 as a legal subdivision of the State of California.

The District was established by an act of the Board of Supervisors of the County on January 24, 1955 with active powers of fire protection, rescue and emergency medical services to the community of Forest Falls.

The District is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (i) the County has the ability to impose its will on the organization, or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of the District and are not intended to present the financial position of the County taken as a whole.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from any *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**County of San Bernardino
Forest Falls Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the District does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as taxes and federal and state grants, the County expanded its definition of “available” to 9 months. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District utilizes a single special revenue fund labeled “Fire Protection”. It accounts for all financial resources of the general government.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

**County of San Bernardino
Forest Falls Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." All accounts receivable are shown net of an allowance for uncollectibles when applicable.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Capital assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset life is not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

**County of San Bernardino
Forest Falls Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Property, plant and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Infrastructure	40
Structures & improvements	5 – 45
Equipment and vehicles	6 – 15
Utility plant in service	45

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$(19,548) difference are as follows:

Capital outlays	\$ -
Depreciation expense	<u>19,548</u>
Net adjustment to decrease <i>net change in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i> .	<u><u>\$(19,548)</u></u>

**County of San Bernardino
Forest Falls Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

Changes in accounting principle

During the 2001-02 fiscal year, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*, and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of July 1, 2001. The above changes have resulted in a change to the format and content of the District's basic financial statements.

**County of San Bernardino
Forest Falls Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes the cash balance of monies deposited with the county treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and cash equivalents are shown at the fair value as of June 30, 2002.

NOTE 3: CAPITAL ASSETS

The costs of building and acquiring capital assets (land, buildings, vehicles and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the statement of net assets includes those capital assets among the assets of the District as a whole and their original costs are expensed annually over their useful lives. Capital asset activity for the year ended June 30, 2002 was as follows:

	Balance July 1, 2001	Additions	Disposals	Balance June 30, 2002
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 2,000	\$ -	\$ -	\$ 2,000
Total capital assets not being depreciated	2,000			2,000
Capital assets being depreciated:				
Improvements to land	18,951			18,951
Vehicles	375,976			375,976
Equipment	6,500			6,500
Total capital assets being depreciated	401,427			401,427
Less accumulated depreciation for:				
Improvements to land	877	421		1,298
Vehicles	252,883	19,127		272,010
Equipment	6,500			6,500
Total accumulated depreciation	260,260	19,548		279,808
Total capital assets being depreciated, net	141,167	(19,548)		121,619
Total net capital assets	\$ 143,167	\$ (19,548)	\$ -	\$ 123,619

NOTE 4: SELF INSURANCE

The District participates in a Public Entity Risk Pool sponsored by the County. The District did not incur any insurance costs for annual premiums for the year ended June 30, 2002.

**County of San Bernardino
Forest Falls Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 4: SELF INSURANCE – (Continued)

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice

liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II. Workers compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance which is accounted for in the General Fund of the County. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, worker's compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investments in the agreements totaled \$42,590,000 at June 30, 2002.

The total County claims liability of \$95,288,000 reported at June 30, 2002 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the claims liability amount in fiscal years 2001 and 2002 were (in thousands):

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-end
2000-01	\$ 52,853	\$ 13,384	\$ (5,065)	\$ 61,172
2001-02	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

The District did not have any outstanding liability claims filed against the District for

**County of San Bernardino
Forest Falls Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 4: SELF INSURANCE – (Continued)

public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and worker's compensation claims for the year ending June 30, 2002.

NOTE 5: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). The plan provides retirement, death, and disability benefits to members. Although legally established as a single employer plan for the County of San Bernardino (which includes the District), the organizations listed below were added later:

- City of Big Bear Lake
- City of Chino Hills
- California State Association of Counties
- San Bernardino County Law Library
- Crest Forest Fire Protection District
- Mojave Desert Air Quality Management District (MDAQMD)
- South Coast Air Quality Management District (AQMD)
- Local Agency Formation Commission (LAFCO)

The District and others covered under the plan are collectively referred to as the "Participating Members." The plan is governed by the San Bernardino County Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report which may be obtained by contacting the Board of Retirement, 348 West Hospitality Lane, San Bernardino, California 92415-0014.

Funding Policy

Participating members are required by statute (Sections 31621, 31521.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry into the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute

**County of San Bernardino
Forest Falls Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 5: RETIREMENT PLAN *(Continued)*

7.11% - 10.58% of their annual covered salary of which the District pays approximately 7%. Employers are required to contribute 6.67% - 14.46% of the current year covered payroll. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Section 31453 of the 1937 Act.

NOTE 6: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIII B to the State Constitution, established limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2001-2002 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

NOTE 7: NET ASSETS

Net assets represent the difference between assets and liabilities. The net asset amounts were as follows:

	<u>Governmental Activities</u>
Invested in Capital Assets, Net Related Debt: June 30, 2002	
Net land, Improvements to Land, Infrastructure, Construction in Progress, Utility Plant in Service, Structures and Improvements, and Equipment & Vehicles	\$ 123,619
Add prior year contributed capital	-
Less: Revolving loans payable	-
	<u>123,619</u>
Restricted	-
Unrestricted	-
Total Net Assets	<u>\$ 123,619</u>

**County of San Bernardino
Forest Falls Fire Protection District
Required Supplementary Information
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2002**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with
Fire Protection	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
Budgetary fund Balance, July 1, 2001	\$ 78,123	\$ 78,123	\$ 90,642	\$ 12,519
Resources (inflows):				
Property taxes	132,391	132,391	136,015	3,624
Interest and rents	1,500	1,500	3,684	2,184
Other revenue	-	-	320	320
Amounts available for appropriation	212,014	212,014	230,661	18,647
Charges to appropriations (outflows):				
Salaries and benefits	52,496	52,496	49,429	3,067
Services and supplies	91,424	91,424	81,791	9,633
Structures and improvements	-	-	29,752	(29,752)
Vehicles	4,200	4,200	-	4,200
Reserves and contingencies	63,894	63,894	-	63,894
Total charges to appropriations	212,014	212,014	160,972	51,042
Budgetary fund balance, June 30, 2002	\$ -	\$ -	\$ 69,689	\$ 69,689

COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
LAKE ARROWHEAD FIRE PROTECTION DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

Prepared by:
Internal Audits Section
Office of the Auditor/Controller-Recorder
November 19, 2002

**County of San Bernardino Special Districts
Lake Arrowhead Fire Protection District**

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AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

AUDITOR/CONTROLLER • 222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830

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San Bernardino, CA 92415-0022 • (909) 387-8306 • Fax (909) 386-8940

LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

November 19, 2002

Emil A. Marzullo, Director
Office of Special Districts
157 W. Fifth Street, Second Floor
San Bernardino, CA 92415-0450

**SUBJECT: AUDIT OF LAKE ARROWHEAD FIRE PROTECTION DISTRICT FOR THE
FISCAL YEAR ENDED JUNE 30, 2002**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of Lake Arrowhead Fire Protection District for the fiscal year ended June 30, 2002.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund, and the remaining aggregate fund information of the County of San Bernardino Special Districts Lake Arrowhead Fire Protection District (the District), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2002, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial

statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund, and the remaining aggregate fund information of the County of San Bernardino Special Districts Lake Arrowhead Fire Protection District, as of June 30, 2002, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

As discussed in Note 1 to the basic financial statements, the accompanying financial statements reflect certain changes in the presentation of financial data required as a result of the implementation of Governmental Accounting Standards Board Statement Nos. 34, 37 and 38 for the year ended June 30, 2002. This results in a change in the format and content of the basic financial statements.

The accompanying budgetary comparison information on page 23 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The County of San Bernardino Special Districts Lake Arrowhead Fire Protection District has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Copies to:

Larry Walker
Auditor/Controller-Recorder

County Administrative Office
Board of Supervisors
Grand Jury (2)

By: Barbara K. Redding, CPA, CGFM
Internal Audits Manager

Audit File (3)
Date Report Distributed: 5/28/03

**County of San Bernardino
Lake Arrowhead Fire Protection District
Statement of Net Assets
June 30, 2002**

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,316,807	\$ 683,491	\$ 3,000,298
Accounts receivable	-	320,188	320,188
Less allowance for uncollectible accounts	-	(76,068)	(76,068)
Taxes receivable	247,541	-	247,541
Interest receivable	22,036	6,441	28,477
Total current assets	<u>2,586,384</u>	<u>934,052</u>	<u>3,520,436</u>
Noncurrent assets:			
Capital assets:			
Land	577,500	-	577,500
Improvements to land	132,836	-	132,836
Construction in progress	1,029,331	-	1,029,331
Structures and improvements	4,271,040	-	4,271,040
Equipment and vehicles	1,169,916	259,213	1,429,129
Less accumulated depreciation	(1,744,003)	(178,963)	(1,922,966)
Total noncurrent assets	<u>5,436,620</u>	<u>80,250</u>	<u>5,516,870</u>
Total assets	<u>\$ 8,023,004</u>	<u>\$ 1,014,302</u>	<u>\$ 9,037,306</u>
LIABILITIES			
Current liabilities:			
Salaries and benefits payable	\$ 8,714	\$ -	\$ 8,714
Employee compensated absences	4,058	-	4,058
Due to other governments	434,583	-	434,583
Total current liabilities	<u>447,355</u>	<u>-</u>	<u>447,355</u>
Noncurrent liabilities:	-	-	-
Total liabilities	<u>447,355</u>	<u>-</u>	<u>447,355</u>
NET ASSETS			
Invested in capital assets	5,436,620	80,250	5,516,870
Unrestricted	2,139,029	934,052	3,073,081
Total net assets	<u>7,575,649</u>	<u>1,014,302</u>	<u>8,589,951</u>
Total liabilities and net assets	<u>\$ 8,023,004</u>	<u>\$ 1,014,302</u>	<u>\$ 9,037,306</u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Lake Arrowhead Fire Protection District
Statement of Activities
For the Fiscal Year Ended June 30, 2002**

	Governmental Activities	Business-type Activities	Total
EXPENSES			
Salaries and benefits	\$ 4,173,567	\$ 21,677	\$ 4,195,244
Services and supplies	690,472	131,613	822,085
Depreciation	196,328	39,254	235,582
Operating transfers out	795,672	300,000	1,095,672
Total expenses	5,856,039	492,544	6,348,583
PROGRAM REVENUES			
Charges for services	276,905	756,076	1,032,981
Total program revenues	276,905	756,076	1,032,981
Net program (expense) revenue	(5,579,134)	263,532	(5,315,602)
GENERAL REVENUES			
Property taxes	4,264,525	-	4,264,525
Special assessments	151	-	151
Other taxes	82,655	-	82,655
Other state aid	99,508	-	99,508
Other government aid	15,606	-	15,606
Interest	89,787	22,753	112,540
Other revenues	12,510	1,719	14,229
Operating transfers in	664,300	-	664,300
Total general revenues	5,229,042	24,472	5,253,514
Change in net assets	(350,092)	288,004	(62,088)
Net assets - beginning	7,925,741	726,298	8,652,039
Net assets - ending	\$ 7,575,649	\$ 1,014,302	\$ 8,589,951

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Lake Arrowhead Fire Protection District
Balance Sheet
Governmental Funds
Ended June 30, 2002**

	Fire (SRM, CCC, CGA)
ASSETS	
Cash and cash equivalents	\$ 2,316,807
Interest receivable	22,036
Taxes receivable	247,541
Total assets	<u>\$ 2,586,384</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Salaries and benefits payable	\$ 8,714
Due to other governments	434,583
Total liabilities	<u>443,297</u>
Fund balances:	
Reserved - imprest	500
Reserved - for encumbrances	210,887
Unreserved	1,931,700
Total fund balances	<u>2,143,087</u>
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	5,436,620
Compensated absences payable are not financial resources and, therefore, are not reported in the funds.	<u>(4,058)</u>
Net assets of governmental activities	<u>\$ 7,575,649</u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Lake Arrowhead Fire Protection District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2002**

	Fire (SRM, CCC, CGA)
REVENUES	
Property taxes	\$ 4,264,525
Special assessments	151
Other taxes	82,655
Other state aid	99,508
Other government aid	15,606
Interest	89,787
Service fees	276,905
Other revenues	12,510
Total revenues	<u>4,841,647</u>
EXPENDITURES	
Salaries and benefits	4,176,205
Services and supplies	690,472
Capital outlay	663,475
Total expenditures	<u>5,530,152</u>
Excess of revenues over (under) expenditures	<u>(688,505)</u>
OTHER FINANCING SOURCES (USES)	
Transfers in	664,300
Transfers out	(795,672)
Total other financing sources (uses)	<u>(131,372)</u>
Net change in fund balances	(819,877)
Fund balances - beginning	<u>2,962,964</u>
Fund balances - ending	<u><u>\$ 2,143,087</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Lake Arrowhead Fire Protection District
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended June 30, 2002**

Net change in fund balances - total governmental funds	\$	(819,877)
--	----	-----------

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.		467,147
--	--	---------

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Decrease in compensated absences payable		2,638
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Change in net assets of governmental activities	\$	(350,092)
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The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Lake Arrowhead Fire Protection District
Statement of Net Assets
Proprietary Funds
June 30, 2002**

	Enterprise Fund Ambulance
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 683,491
Accounts receivable	320,188
Less allowance for uncollectible accounts	(76,068)
Interest receivable	6,441
Total current assets	<u>934,052</u>
Noncurrent assets:	
Capital assets:	
Equipment and vehicles	259,213
Less accumulated depreciation	<u>(178,963)</u>
Total noncurrent assets	<u>80,250</u>
Total assets	<u>\$ 1,014,302</u>
LIABILITIES	<u>\$ -</u>
NET ASSETS	
Invested in capital assets	80,250
Unrestricted	<u>934,052</u>
Total net assets	<u>1,014,302</u>
Total liabilities and net assets	<u>\$ 1,014,302</u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Lake Arrowhead Fire Protection District
Statement of Revenues, Expenses, and Changed in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2002**

	Enterprise Fund Ambulance
OPERATING REVENUES	
Charges for services	\$ 756,076
Total operating revenues	<u>756,076</u>
OPERATING EXPENSES	
Salaries and benefits	21,677
Professional services	36,209
Services and supplies	95,404
Depreciation	39,254
Total operating expenses	<u>192,544</u>
Operating income (loss)	<u>563,532</u>
NONOPERATING REVENUES (EXPENSES)	
Interest revenue	22,753
Other nonoperating revenues	1,719
Total nonoperating revenues (expenses)	<u>24,472</u>
Income (loss) before transfers	588,004
Transfers out	<u>(300,000)</u>
Change in net assets	288,004
Net assets - beginning	<u>726,298</u>
Net assets - ending	<u><u>\$ 1,014,302</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Lake Arrowhead Fire Protection District
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2002**

CASH FLOWS FROM OPERATING ACTIVITIES

Received from user charges	\$ 576,943
Payments to employees for services	(21,677)
Payments to suppliers for goods and services	(45,133)
Net cash provided (used) by operating activities	<u>510,133</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Transfers out	(300,000)
Net cash provided (used) by noncapital financing activities	<u>(300,000)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Payments related to the acquisition, construction and improvement of capital assets	(30,226)
Net cash provided (used) by capital and related financing activities	<u>(30,226)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Increase in fair market value of investments	1,719
Interest	21,435
Net cash provided (used) by investing activities	<u>23,154</u>

Net increase (decrease) in cash and cash equivalents 203,061

Cash and cash equivalents - beginning	480,430
Cash and cash equivalents - ending	<u><u>\$ 683,491</u></u>

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:

Operating income (loss)	\$ 564,702
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation expense	38,084
Change in assets and liabilities:	
Receivables, net	(115,473)
Due from other governments	22,820
Net cash provided (used) by operating activities	<u><u>\$ 510,133</u></u>

Noncash investing, capital, and financing activities:

NONE

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Lake Arrowhead Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Lake Arrowhead Fire Protection District (the District) – is a special district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter (the County). The County was established in 1852 as a legal subdivision of the State of California.

The District was established by an act of the Board of Supervisors of the County of San Bernardino (the Board) on January 3, 1939 with the active powers of fire (inspection, suppression, protection, first aid, and rescue). Currently, the governmental reporting entity consists of fire protection and emergency medical services to the community of Lake Arrowhead.

The District is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (i) the County has the ability to impose its will on the organization, or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of Lake Arrowhead Fire Protection District and are not intended to present the financial position of the County taken as a whole.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments.

**County of San Bernardino
Lake Arrowhead Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the District does not have any fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as taxes and federal and state grants, the County expanded its definition of "available" to 9 months. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

**County of San Bernardino
Lake Arrowhead Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

The government reports the following major governmental funds:

The *special revenue fund* labeled "Fire" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's enterprise fund is charges to customers for ambulance services. Operating expenses for enterprise funds include the cost of salaries and benefits, services and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

The government reports the following major proprietary funds:

The *enterprise fund* labeled "Ambulance" accounts for the emergency transport activities of the District. The District operates an ambulance under the administration of the San Bernardino County Fire Department.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**County of San Bernardino
Lake Arrowhead Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

Receivables and payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." All accounts receivable are shown net of an allowance for uncollectibles when applicable.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year.

**County of San Bernardino
Lake Arrowhead Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset life is not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Improvements to land	20 - 45
Structures & improvements	10 - 45
Equipment and vehicles	6 - 15

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Employee Compensated Absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a current liability. The District is not obligated to pay for unused sick leave if an employee terminates or retires.

Compensated absences activity for the year ended June 30, 2002 was as follows:

Beginning Balance	Additions	Deletions	Ending Balance
\$ 6,696	\$ 15,449	\$ 18,087	\$ 4,058

**County of San Bernardino
Lake Arrowhead Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$467,147 difference are as follows:

Capital outlay	\$ 663,475
Depreciation expense	<u>196,328</u>
Net adjustment to decrease <i>net change in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u><u>\$ 467,147</u></u>

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

**County of San Bernardino
Lake Arrowhead Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head.

Any deficiency of budgeted revenues and other financing resources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

Changes in accounting principle

During the 2001-02 fiscal year, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*, and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of July 1, 2001. The above changes have resulted in a change to the format and content of the CSA's basic financial statements.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and cash equivalents are shown at the fair value as of June 30, 2002.

NOTE 3: RECEIVABLES

At June 30, 2002, receivables were composed of the following:

	<u>Governmental</u>	<u>Business-type</u>
Accounts	\$ -	\$ 244,120

**County of San Bernardino
Lake Arrowhead Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 3: RECEIVABLES – Continued

Interest	22,036	6,441
Taxes	247,541	
Net total receivables	<u>\$ 269,577</u>	<u>\$ 250,561</u>

NOTE 4: CAPITAL ASSETS

The costs of building and acquiring capital assets (land, buildings, vehicles and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the statement of net assets includes those capital assets among the assets of Lake Arrowhead Fire Protection District as a whole, and their original costs are expensed annually over their useful lives. Capital asset activity for governmental and business-type activities for the year ended June 30, 2002 follows. All governmental assets and depreciation are from the fire protection activity.

Governmental activities

	Balance at July 1, 2001	Additions	Disposals	Balance at June 30, 2002
Capital assets not being depreciated:				
Land	\$ 577,500	\$ -	\$ -	\$ 577,500
Construction in progress	429,566	599,765	-	1,029,331
Total capital assets not being depreciated	<u>1,007,066</u>	<u>599,765</u>	<u>-</u>	<u>1,606,831</u>
Capital assets being depreciated:				
Improvements to land	132,836	-	-	132,836
Structures and improvements	4,271,040	-	-	4,271,040
Equipment	66,142	-	-	66,142
Vehicles	1,040,064	63,710	-	1,103,774
Total capital assets being depreciated	<u>5,510,082</u>	<u>63,710</u>	<u>-</u>	<u>5,573,792</u>
Less accumulated depreciation for:				
Improvements to land	57,138	3,355	-	60,493
Structures and improvements	726,354	88,249	-	814,603
Equipment	15,520	5,460	-	20,980
Vehicles	748,663	99,264	-	847,927
Total accumulated depreciation	<u>1,547,675</u>	<u>196,328</u>	<u>-</u>	<u>1,744,003</u>
Total capital assets being depreciated, net	<u>3,962,407</u>	<u>(132,618)</u>	<u>-</u>	<u>3,829,789</u>
Total net capital assets	<u>\$ 4,969,473</u>	<u>\$ 467,147</u>	<u>\$ -</u>	<u>\$ 5,436,620</u>

**County of San Bernardino
Lake Arrowhead Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 4: CAPITAL ASSETS – Continued

Business-type activities

	Balance at July 1, 2001	Additions	Disposals	Balance at June 30, 2002
Capital assets being depreciated:				
Vehicles	\$ 323,288	\$ 30,226	\$ 94,301	\$ 259,213
Total capital assets being depreciated	323,288	30,226	94,301	259,213
Less accumulated depreciation for:				
Vehicles	234,010	39,254	94,301	178,963
Total accumulated depreciation	234,010	39,254	94,301	178,963
Total capital assets being depreciated, net	89,278	(9,028)	-	80,250
Total net capital assets	\$ 89,278	\$ (9,028)	\$ -	\$ 80,250

Construction in progress represents the following projects:

Project Title	Budget	YTD Expenses	Projected Completion Date
Fire Station # 94	\$5,130,000	\$1,029,331	2003
Total		\$1,029,331	

NOTE 5: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). The plan provides retirement, death, and disability benefits to members. Although legally established as a single employer plan for the County of San Bernardino (which includes the District), the organizations listed below were added later:

City of Big Bear Lake
City of Chino Hills
California State Association of Counties

**County of San Bernardino
Lake Arrowhead Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 5: RETIREMENT PLAN - *Continued*

San Bernardino County Law Library
Crest Forest Fire Protection District
Mojave Desert Air Quality Management District (MDAQMD)
South Coast Air Quality Management District (AQMD)
Local Agency Formation Commission (LAFCO)

The District and others covered under the plan are collectively referred to as the "Participating Members." The plan is governed by the San Bernardino County Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report which may be obtained by contacting the Board of Retirement, 348 West Hospitality Lane, San Bernardino, California 92415-0014.

Funding Policy

Participating members are required by statute (Sections 31621, 31521.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry into the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 7.11% - 10.58% of their annual covered salary of which the District pays approximately 7%. Employers are required to contribute 6.67% - 14.46% of the current year covered payroll. During the year, the District paid \$430,952 to the plan as the employer's share. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Section 31453 of the 1937 Act.

NOTE 6: FEDERAL AND STATE GRANTS

From time to time the District may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

NOTE 7: SELF INSURANCE

The District participates in a Public Entity Risk Pool sponsored by the County of San Bernardino. The only insurance costs that the District will incur will be for annual premiums paid to the Risk Management Fund. Insurance premiums totaled \$227,691 for the year ended June 30, 2002.

**County of San Bernardino
Lake Arrowhead Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 7: SELF INSURANCE - Continued

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II. Workers compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance which are accounted for in the General Fund of the County of San Bernardino. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, worker's compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investments in the agreements totaled \$42,590,000 at June 30, 2002.

The total County claims liability of \$95,288,000 reported at June 30, 2002 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the claims liability amount in fiscal years 2001 and 2002 were (in thousands):

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-end
2000-01	\$ 52,853	\$ 13,384	\$ (5,065)	\$ 61,172
2001-02	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

**County of San Bernardino
Lake Arrowhead Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 7: SELF INSURANCE – Continued

The District did not have any outstanding liability claims filed against the District for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and worker's compensation claims for the year ending June 30, 2002.

NOTE 8: CONTINGENCIES

As of June 30, 2002, in the opinion of the District's Administration, there are no outstanding matters which would have a significant effect on the financial position of the District.

NOTE 9: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIII B to the State Constitution, established limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2001-2002 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

NOTE 10: NET ASSETS

Net assets represent the difference between assets and liabilities. The net asset amounts were \$7,575,649 for governmental activities and \$1,014,302 for business-type activities.

	Governmental Activities	Business- Type Activities
Invested in Capital Assets, Net of Related Debt: June 30, 2002		
Net Land, Improvements to Land, Infrastructure, Construction in Progress, Utility Plant in Service, Structures and Improvements, and Equipment & Vehicles	\$ 5,436,620	\$ 80,250
Add: Prior year contributed capital	-	-
Less: Revolving loans payable	-	-
	5,436,620	80,250
Restricted	-	-
Unrestricted	2,139,029	934,052
Total Net Assets	\$ 7,575,649	\$ 1,014,302

**County of San Bernardino
Lake Arrowhead Fire Protection District
Required Supplementary Information
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2002**

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
Fire				
Budgetary fund balance July 1, 2001	\$ 2,962,964	\$ 2,962,964	\$ 2,962,964	\$ -
Resources (inflows):				
Property taxes	4,221,514	4,221,514	4,264,525	43,011
Other taxes	-	-	82,655	82,655
Special assessments	-	-	151	151
Interest and rents	11,000	11,000	89,787	78,787
Other state aid	-	-	99,508	99,508
Other governmental aid	-	-	15,606	15,606
Charges for services	353,486	353,486	276,905	(76,581)
Operating transfer in	2,059,519	2,059,519	664,300	(1,395,219)
Other revenue	-	-	12,510	12,510
Amount available for appropriation	9,608,483	9,608,483	8,468,911	(1,139,572)
Charges to appropriations (outflows):				
Salaries and benefits	3,992,569	4,301,077	4,176,205	124,872
Services and supplies	904,706	904,706	690,472	214,234
Operating transfers out	795,672	795,672	795,672	-
Capital outlay:				
Structures and improvements	1,800,000	1,800,000	599,765	1,200,235
Equipment and vehicles	69,200	69,200	63,710	5,490
Reserves and contingencies	664,008	355,500	-	355,500
Total charges to appropriations	8,226,155	8,226,155	6,325,824	1,900,331
Budgetary fund balance June 30, 2002	\$ 1,382,328	\$ 1,382,328	\$ 2,143,087	\$ 760,759

COUNTY OF SAN BERNARDINO

CALIFORNIA

SPECIAL DISTRICTS

AUDIT REPORT

BIG BEAR VALLEY PARK AND RECREATION DISTRICT

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

Prepared by:

**Internal Audits Section
Office of the Auditor/Controller-Recorder
December 9, 2002**

**County of San Bernardino Special Districts
Big Bear Valley Park and Recreation District**

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AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

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LARRY WALKER

Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK

Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

December 9, 2002

Emil A. Marzullo, Director
Office of Special Districts
157 W. Fifth Street, Second Floor
San Bernardino, CA 92415-0450

**SUBJECT: AUDIT OF BIG BEAR VALLEY PARK AND RECREATION DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of Big Bear Valley Park and Recreation District for the fiscal year ended June 30, 2002.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund and the remaining aggregate fund information of the County of San Bernardino Special District Big Bear Valley Park and Recreation District (the District), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2002, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the remaining aggregate fund information of the County of San Bernardino Special District Big Bear Valley Park and Recreation District, as of June 30, 2002, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

As discussed in Note 1 to the financial statements, the accompanying financial statements reflect certain changes in the presentation of financial data required as a result of the implementation of Governmental Accounting Standards Board Statement Nos. 34, 37 and 38 for the year ended June 30, 2002. This results in a change in the format and content of the basic financial statements.

The accompanying budgetary comparison information on pages 20 – 21 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The County of San Bernardino Special District Big Bear Valley Park and Recreation District has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Copies to:

Larry Walker
Auditor/Controller-Recorder

County Administrative Office
Board of Supervisors
Grand Jury (2)

By Barbara K. Redding, CPA, CGFM
Internal Audits Manager

Audit File (3)

Date Report Distributed: 4/30/03

LDW:BKR:DPA:dlp3

County of San Bernardino
Big Bear Valley Park and Recreation District
Statement of Net Assets
For the Fiscal Year Ended June 30, 2002

ASSETS

Current assets:

Cash and cash equivalents	\$ 284,806
Accounts receivable	63,801
Taxes receivable	53,078
Interest receivable	1,078
Due from other governments	56,541
Total current assets	<u>459,304</u>

Noncurrent assets:

Capital assets:

Land	171,057
Improvements to land	947,271
Construction in progress	56,541
Structures and improvements	1,540,202
Vehicles	228,273
Equipment	24,136
Less accumulated depreciation	<u>(1,222,753)</u>
Total noncurrent assets	<u>1,744,727</u>
Total assets	<u><u>\$ 2,204,031</u></u>

LIABILITIES

Current liabilities:

Salaries and benefits payable	\$ 46,862
Accounts payable - encumbered	78,228
Employee compensated absences	46,793
Total current liabilities	<u>171,883</u>

Noncurrent liabilities:

Total liabilities	<u>-</u> <u>171,883</u>
-------------------	----------------------------

NET ASSETS

Invested in capital assets	1,744,727
Restricted	50,777
Unrestricted	236,644
Total net assets	<u>2,032,148</u>
Total liabilities and net assets	<u><u>\$ 2,204,031</u></u>

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
Big Bear Valley Park and Recreation District
Statement of Activities
For the Fiscal Year Ended June 30, 2002

	Park (CRP, SSA)	Zoo (SSC, SSF)	Total
EXPENSES			
Salaries and benefits	\$ 868,642	\$ 213,131	\$ 1,081,773
Services and supplies	416,633	75,498	492,131
Depreciation	77,571	-	77,571
Total expenses	1,362,846	288,629	1,651,475
PROGRAM REVENUES			
Charges for services	361,257	263,352	624,609
Inter-fund transfers	25,000	-	25,000
Other services	7,548	-	7,548
Total program revenues	393,805	263,352	657,157
Net program (expense) revenue	(969,041)	(25,277)	(994,318)
GENERAL REVENUES			
Property taxes	891,555	70,323	961,878
Government aid	64,067	-	64,067
Interest	1,331	3,458	4,789
Contributions	-	15,508	15,508
Total general revenues	956,953	89,289	1,046,242
Change in net assets	(12,088)	64,012	51,924
Net assets - beginning	1,919,003	61,221	1,980,224
Net assets - ending	\$ 1,906,915	\$ 125,233	\$ 2,032,148

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
Big Bear Valley Park and Recreation District
Balance Sheet
Governmental Funds
For the Fiscal Year Ended June 30, 2002

	Park (CRP, SSA)	Zoo (SSC, SSF)	Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 180,404	\$ 104,402	\$ 284,806
Accounts receivable	34,593	29,208	63,801
Taxes receivable	53,078	-	53,078
Interest receivable	173	905	1,078
Due from other governments	56,541	-	56,541
Total assets	<u>\$ 324,789</u>	<u>\$ 134,515</u>	<u>\$ 459,304</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and benefits payable	\$ 37,579	\$ 9,282	\$ 46,861
Accounts payable	78,228	-	78,228
Total liabilities	<u>115,807</u>	<u>9,282</u>	<u>125,089</u>
Fund balances:			
Reserved - imprest	675	-	675
Reserved - special activities	50,103	-	50,103
Reserved - encumbrances	(78,228)	-	(78,228)
Unreserved	236,432	125,233	361,665
Total fund balances	<u>208,982</u>	<u>125,233</u>	<u>334,215</u>
Total liabilities and fund balances	<u>\$ 324,789</u>	<u>\$ 134,515</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets and long-term liabilities used in governmental activities are not financial resources and, therefore, are not reported in the funds.	<u>1,697,933</u>
Net assets of governmental activities	<u>\$ 2,032,148</u>

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
Big Bear Valley Park and Recreation District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2002

	Park (CRP, SSA)	Zoo (SSC, SSF)	Total Governmental Funds
REVENUES			
Property taxes	\$ 891,555	\$ 70,323	\$ 961,878
Charges for services	361,257	263,352	624,609
Other services	7,548	-	7,548
Interest	1,331	3,458	4,789
Government aid	64,067	-	64,067
Contributions	-	15,508	15,508
Total revenues	<u>1,325,758</u>	<u>352,641</u>	<u>1,678,399</u>
EXPENDITURES			
Salaries and benefits	868,642	213,131	1,081,773
Professional services	36,694	7,581	44,275
Services and supplies	285,424	64,868	350,292
Utilities	79,262	-	79,262
Rents and leases	15,253	3,050	18,303
Capital outlay	78,228	-	78,228
Total expenditures	<u>1,363,503</u>	<u>288,630</u>	<u>1,652,133</u>
Excess of revenues over (under) expenditures	<u>(37,745)</u>	<u>64,011</u>	<u>26,266</u>
OTHER FINANCING SOURCES (USES)			
Interfund transfers	25,000	-	25,000
Total other financing sources (uses)	<u>25,000</u>	<u>-</u>	<u>25,000</u>
Net change in fund balances	(12,745)	64,011	51,266
Fund balances - beginning	<u>221,727</u>	<u>61,221</u>	<u>282,948</u>
Fund balances - ending	<u>\$ 208,982</u>	<u>\$ 125,232</u>	<u>\$ 334,214</u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Big Bear Valley Park and Recreation District
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
For the Fiscal Year Ended June 30, 2002**

Net change in fund balances - total governmental funds	\$	51,266
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.

658

Change in net assets of governmental activities

\$ 51,924

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Big Bear Valley Park and Recreation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Big Bear Valley Park and Recreation District (the District) is a park and recreation district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter (the County). The County was established in 1852 as a legal subdivision of the State of California.

The District was established by an act of the Board of Supervisors of the County of San Bernardino on April 23, 1934. The governmental reporting entity maintains nine parks, including a zoo, swim beach, and senior center.

The District is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (i) the County has the ability to impose its will on the organization, or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of the Big Bear Valley Park and Recreation District and are not intended to present the financial position of the County taken as a whole.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are

**County of San Bernardino
Big Bear Valley Park and Recreation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the District does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as taxes and federal and state grants, the County expanded its definition of "available" to 9 months. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

**County of San Bernardino
Big Bear Valley Park and Recreation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

The government reports the following major governmental funds:

The *special revenue and capital project funds* labeled "Park" are the government's primary operating funds. They account for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue funds* labeled "Zoo" accounts for the Moonridge Animal Park Zoo and zoo projects.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

The Capital Projects fund accounts for the financial resources and the acquisition and construction of recreational facilities within the District.

Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances." All accounts receivable are shown net of an allowance for uncollectibles when applicable.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10,

**County of San Bernardino
Big Bear Valley Park and Recreation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Equipment and Vehicles	6
Structures & improvements	15 – 45
Improvements to land	15 – 45

**County of San Bernardino
Big Bear Valley Park and Recreation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Employee Compensated Absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a current liability. The District is not obligated to pay for unused sick leave if an employee terminates or retire.

	<u>Principal Balance July 1, 2001</u>	<u>Additions</u>	<u>Retirements</u>	<u>Principal Balance June 30, 2002</u>	<u>Amounts Due Within One Year</u>
Compensated Absences	\$ 48,846	\$ 51,525	\$ 53,578	\$ 46,793	\$ 2,053

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is

**County of San Bernardino
Big Bear Valley Park and Recreation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

allocated over their estimated useful lives and reported as depreciation expense." The details of this \$658 difference are as follows:

Capital outlay	\$ 78,229
Depreciation expense	<u>77,571</u>
<i>Net adjustment to decrease net change in fund balances - total governmental funds to arrive at changes in net assets of governmental activities</i>	
	<u><u>\$ 658</u></u>

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

**County of San Bernardino
Big Bear Valley Park and Recreation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Changes in accounting principle

During the 2001-02 fiscal year, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*, and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of July 1, 2001. The above changes have resulted in a change to the format and content of the District's basic financial statements.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2002.

NOTE 3: CAPITAL ASSETS

The costs of building and acquiring capital assets (land, buildings, vehicles and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the statement of net assets includes those capital assets among the assets of Big Bear Valley Park and Recreation District as a whole, and their original costs are expensed annually over their useful lives. Capital asset activity for governmental activities for the year ended June 30, 2002 was as follows:

**County of San Bernardino
Big Bear Valley Park and Recreation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 3: CAPITAL ASSETS – Continued

	Beginning Balance (as restated)	Additions	Deletions	Ending Balance
Governmental activities:				
<i>Capital assets, not being depreciated</i>				
Land	\$ 171,057	\$ -	\$ -	\$ 171,057
Construction in progress	-	56,541	-	56,541
Total capital assets, not being depreciated	171,057	56,541	-	227,598
<i>Capital assets, being depreciated</i>				
Improvements to land	947,271	-	-	947,271
Structures and improvements	1,540,202	-	-	1,540,202
Vehicles	177,483	50,790	-	228,273
Equipment	24,136	-	-	24,136
Total capital assets, being depreciated	2,689,092	50,790	-	2,739,882
Less accumulated depreciation for:				
Improvements to land	447,716	32,649	-	480,365
Structures and improvements	510,648	32,866	-	543,514
Vehicles	163,539	11,609	-	175,148
Equipment	23,279	447	-	23,726
Total accumulated depreciation	1,145,182	77,571	-	1,222,753
Total capital assets, being depreciated, net	1,543,910	(26,781)	-	1,517,129

At June 30, 2002, construction in progress represents the following projects:

Project Title	Budget	YTD Expenses	Projected Completion Date
Miller Park Playground Equipment	65,000	56,541	2003
Total		<u>\$ 56,541</u>	

**County of San Bernardino
Big Bear Valley Park and Recreation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 4: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). The plan provides retirement, death, and disability benefits to members. Although legally established as a single employer plan for the County of San Bernardino (which includes the District), the organizations listed below were added later:

City of Big Bear Lake
City of Chino Hills
California State Association of Counties
San Bernardino County Law Library
Crest Forest Fire Protection District
Mojave Desert Air Quality Management District (MDAQMD)
South Coast Air Quality Management District (AQMD)
Local Agency Formation Commission (LAFCO)

The District and others covered under the plan are collectively referred to as the "Participating Members." The plan is governed by the San Bernardino County Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 West Hospitality Lane, San Bernardino, California 92415-0014.

Funding Policy

Participating members are required by statute (Sections 31621, 31521.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry into the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 7.11% - 10.58% of their annual covered salary of which the District pays approximately 7%. Employers are required to contribute 6.67% - 14.46% of the current year covered payroll. During the year, the District paid \$41,647.68 to the plan as the employer's share. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Section 31453 of the 1937 Act.

**County of San Bernardino
Big Bear Valley Park and Recreation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 5: SELF INSURANCE

The District participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The only insurance costs that the District will incur will be for annual premiums paid to the Risk Management Fund. Insurance premiums totaled \$79,112.99 for the year ended June 30, 2002.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II. Workers compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance which are accounted for in the General Fund of the County of San Bernardino. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investments in the agreements totaled \$42,590,000 at June 30, 2002.

The total County claims liability of \$95,288,000 reported at June 30, 2002 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

**County of San Bernardino
Big Bear Valley Park and Recreation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 5: SELF INSURANCE - Continued

Changes in the claims liability amount in fiscal years 2001 and 2002 were (in thousands):

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at Fiscal Year-end</u>
2000-01	\$ 52,853	13,384	(5,065)	\$ 80,223
2001-02	61,172	61,832	(27,716)	95,288

Big Bear Valley Park and Recreation did not have any outstanding liability claims filed against the District for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and worker's compensation claims for the year ending June 30, 2002.

NOTE 6: TRANSFERS IN/OUT

Interfund Transfers In/Out transactions are used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital project funds. At June 30, 2002, the District made the following interfund transfers in and out:

<u>To</u>	<u>From</u>	<u>Purpose</u>	<u>Amount</u>
Fund - SSA	General - Special Revenue Fund (AAA/CNA)	Allocation from High Priority Policy Needs for Moonridge Animal Park	\$25,000
		Net Interfund Transfers	<u>\$25,000</u>

NOTE 7: CONTINGENCIES

As of June 30, 2002, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

NOTE 8: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, established limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2001-2002 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

**County of San Bernardino
Big Bear Valley Park and Recreation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 9: SPECIAL ACTIVITIES FUND

The District operates a revolving cash fund for the purpose of conducting and supervising special recreational activities. The funds generated by the special activities are kept in a commercial bank. Because the recreational activities are self-funded and not part of the District's budget, only the cash balance and related equity are recorded on the District's general fund balance sheet. Profits earned from special activities are reflected as part of park and recreation fees in the general fund. Gross revenues, expenses (including transfers to the general fund), and the cash balance in the fund are shown below:

Cash balance July 1, 2001	\$ 44,658
Add: revenues	532,318
Less: expenses and transfers	(526,874)
Cash balance June 30, 2002	<u>\$ 50,102</u>

NOTE 10: NET ASSETS

Net assets represent the difference between assets and liabilities. The net asset amounts were as follows:

	<u>Governmental Activities</u>
Invested in Capital Assets, Net of Related Debt: June 30, 2002	
Net Improvements to Land, Infrastructure, Construction in Progress, Utility Plant in Service, Structures and Improvements, and Equipment & Vehicles	\$ 1,744,727
Add: Prior year contributed capital	-
Less: Revolving loans payable	-
	<u>1,744,727</u>
Restricted	50,777
Unrestricted	<u>236,644</u>
Total Net Assets	<u><u>\$ 2,032,148</u></u>

Required Supplementary Information
County of San Bernardino
Big Bear Valley Park and Recreation District
Budgetary Comparison Schedule – Special Revenue Funds
For the Fiscal Year Ended June 30, 2002

Schedule One

Page 1 of 2

	Special Revenue Fund			
	Park (SSA)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Property taxes	839,029	839,029	891,555	52,526
Use of money and property	21,350	21,350	1,331	(20,019)
Current services	397,890	397,890	368,805	(29,085)
Federal aid	-	-	64,067	64,067
Other revenue	157,241	157,241	-	(157,241)
Total revenues	1,415,510	1,415,510	1,325,758	(89,752)
EXPENDITURES				
Salaries and benefits	870,651	870,651	868,642	2,009
Services and supplies	476,110	476,110	416,633	59,477
Equipment and vehicles	38,000	38,000	78,228	
Reserves and contingencies	71,635	71,635	-	71,635
Total expenditures	1,456,396	1,456,396	1,363,503	92,893
OTHER FINANCING SOURCES (USES)				
Transfers out	(153,310)	(153,310)	25,000	(178,310)
Total other financing sources (uses)	(153,310)	(153,310)	25,000	(178,310)
Net change in fund balances	\$ (194,196)	\$ (194,196)	\$ (12,745)	\$ (360,955)
Fund balances - beginning			221,727	
Fund balances - ending			\$ 208,982	

Required Supplementary Information
County of San Bernardino
Big Bear Valley Park and Recreation District
Budgetary Comparison Schedule – Special Revenue Funds
For the Fiscal Year Ended June 30, 2002

Schedule One

Page 2 of 2

	Special Revenue Fund			
	Zoo (SSF)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Property taxes	70,323	70,323	70,323	-
Use of money and property	-	-	3,458	3,458
Current services	240,700	240,700	263,352	22,652
Federal aid	-	-	-	-
Other revenue	-	-	15,508	15,508
Total revenues	311,023	311,023	352,641	41,618
EXPENDITURES				
Salaries and benefits	230,228	230,228	213,131	17,097
Services and supplies	84,201	84,201	75,499	8,702
Equipment and vehicles	-	-	-	-
Reserves and contingencies	38,167	38,167	-	38,167
Total expenditures	352,596	352,596	288,630	63,966
OTHER FINANCING SOURCES (USES)				
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	\$ (41,573)	\$ (41,573)	\$ 64,011	\$ (22,348)
Fund balances - beginning			61,221	
Fund balances - ending			\$ 125,232	

COUNTY OF SAN BERNARDINO

CALIFORNIA

SPECIAL DISTRICTS

AUDIT REPORT

AGUA MANSA INDUSTRIAL GROWTH ASSOCIATION

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder
November 19, 2002

**County of San Bernardino Special Districts
Agua Mansa Industrial Growth Association**

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AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

AUDITOR/CONTROLLER • 222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830

RECORDER • COUNTY CLERK • 222 West Hospitality Lane, First Floor
San Bernardino, CA 92415-0022 • (909) 387-8306 • Fax (909) 386-8940

LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

November 19, 2002

Thomas R. Laurin, Director
Agua Mansa Industrial Growth Association
290 North "D" Street, Sixth Floor
San Bernardino, CA 92415-0400

**SUBJECT: AUDIT OF AGUA MANSA INDUSTRIAL GROWTH ASSOCIATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Introductory Remarks

In compliance with Section 6505 of the California Government Code, we have completed an audit of Agua Mansa Industrial Growth Association for the fiscal year ended June 30, 2002.

Auditor's Report

We have audited the accompanying financial statements of the business-type activities, each major fund, and the remaining aggregate fund information of the County of San Bernardino Agua Mansa Industrial Growth Association (AMIGA), as of and for the year ended June 30, 2002, which collectively comprise AMIGA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the AMIGA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial

statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the remaining aggregate fund information of the County of San Bernardino AMIGA, as of June 30, 2002, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

As discussed in Note 1 to the basic financial statements, the accompanying financial statements reflect certain changes in the presentation of financial data required as a result of the implementation of Governmental Accounting Standards Board Statement Nos. 34, 37 and 38 for the year ended June 30, 2002. This results in a change in the format and content of the basic financial statements.

The County of San Bernardino AMIGA has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Larry Walker
Auditor/Controller-Recorder

Copies to:

County Administrative Office
Board of Supervisors
Grand Jury (2)

By: Barbara K. Redding, CPA, CGPM
Internal Audits Section Manager

Audit File (3)

Date Report Distributed: 4/29/03

LDW:BKR:SL:CL:dlp1

**County of San Bernardino
Agua Mansa Industrial Growth Association
Statement of Net Assets
For the Fiscal Year Ended June 30, 2002**

	<u>Administration (NSD)</u>	<u>Administration (NSF)</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 116,598	\$ 254,239	\$ 370,837
Receivables:			
Interest	1,198	2,447	\$ 3,645
Due from other governments	<u>36,000</u>	<u></u>	<u></u>
Total current assets	<u>153,796</u>	<u>256,686</u>	<u>\$ 410,482</u>
 Total assets	 <u>\$ 153,796</u>	 <u>\$ 256,686</u>	 <u>\$ 410,482</u>
 LIABILITIES and NET ASSETS			
Current liabilities:			
Accounts Payable	<u>17</u>	<u>1,993</u>	<u>\$ 2,011</u>
Total current liabilities	<u>17</u>	<u>1,993</u>	<u>\$ 2,011</u>
 Total liabilities	 <u>17</u>	 <u>1,993</u>	 <u>\$ 2,011</u>
 Net assets:			
Unrestricted	123,779	204,692	\$ 328,471
Restricted	<u>30,000</u>	<u>50,000</u>	<u></u>
Total net assets	<u>153,779</u>	<u>254,692</u>	<u>\$ 408,471</u>
 Total liabilities and net assets	 <u>\$ 153,796</u>	 <u>\$ 256,686</u>	 <u>\$ 410,482</u>

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
Agua Mansa Industrial Growth Association
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2002

	<u>Administration (NSD)</u>	<u>Administration (NSF)</u>	<u>Total</u>
OPERATING REVENUES			
Contributions	30,000	50,000	80,000
	<u>30,000</u>	<u>50,000</u>	<u>80,000</u>
Total operating revenues	30,000	50,000	80,000
	<u>30,000</u>	<u>50,000</u>	<u>80,000</u>
OPERATING EXPENSES			
Service and supplies	3,674	23,996	27,670
Professional services	3,145	1,245	4,390
Other operating expenses	3,008	-	3,008
	<u>9,826</u>	<u>25,241</u>	<u>35,068</u>
Total operating expenses	9,826	25,241	35,068
	<u>9,826</u>	<u>25,241</u>	<u>35,068</u>
Operating income (loss)	20,174	24,759	44,932
	<u>20,174</u>	<u>24,759</u>	<u>44,932</u>
NONOPERATING REVENUES (EXPENSES)			
Interest	4,526	10,187	14,713
Special Assessments	-	-	-
	<u>4,526</u>	<u>10,187</u>	<u>14,713</u>
Total nonoperating revenues (expenses)	4,526	10,187	14,713
	<u>4,526</u>	<u>10,187</u>	<u>14,713</u>
Change in net assets	24,700	34,947	59,646
	<u>24,700</u>	<u>34,947</u>	<u>59,646</u>
Net assets, July 1, 2001	129,079	219,747	348,826
	<u>129,079</u>	<u>219,747</u>	<u>348,826</u>
Net assets, June 30, 2002	153,779	254,694	408,472
	<u>153,779</u>	<u>254,694</u>	<u>408,472</u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Agua Mansa Industrial Growth Association
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2002**

Enterprise Fund - Administration (NSD)

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from member dues	\$ 30,000
Payments to suppliers for goods and services	(8,121)
Other payments	<u>(1,848)</u>
Net cash provided by operating activities	<u>20,031</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Increase in fair value of investments	
Interest	<u>4,609</u>
Net cash provided by investing activities	<u>4,609</u>
Net increase in cash and cash equivalents	24,640
Balance-beginning of the year	<u>91,958</u>
Balance-end of the year	<u><u>\$ 116,598</u></u>

Reconciliation of operating income (loss) to net cash provided by operating activities:

Operating income (loss)	\$ 20,174
Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in assets and liabilities:	
Receivables, net	-
Accounts and other payables	<u>(143)</u>
Net cash provided by operating activities	<u><u>\$ 20,031</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Agua Mansa Industrial Growth Association
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2002**

Enterprise Fund - Community Facilities District (NSF)

CASH FLOWS FROM OPERATING ACTIVITIES

Receipt from special assessments	\$ 50,000
Payments to suppliers for goods and services	<u>(35,572)</u>
Net cash used by operating activities	<u>14,428</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Increase in fair value of investments	
Interest	<u>10,187</u>
Net cash provided by investing activities	<u>10,187</u>
Net increase in cash and cash equivalents	24,615
Balances-beginning of the year	<u>228,823</u>
Balances-end of the year	<u><u>\$ 254,239</u></u>

Reconciliation of operating income (loss) to net cash provided by operating activities:

Operating income (loss)	\$ 24,759
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	-
Change in assets and liabilities:	
Receivables, net	
Accounts and other payables	<u>(10,331)</u>
Net cash provided by operating activities	<u>\$ 14,428</u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
 Agua Mansa Industrial Growth Association
 Statement of Fiduciary Net Assets
 Fiduciary Funds
 For the Fiscal Year Ended June 30, 2002**

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 25,640
Interest receivable	<u>858</u>
Total current assets	<u><u>\$ 26,498</u></u>
 LIABILITIES	
Due to bondholders	<u>\$ 26,498</u>
Total liabilities	<u><u>\$ 26,498</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Agua Mansa Industrial Growth Association
Notes to the Financial Statements
June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Agua Mansa Industrial Growth Association (AMIGA) was established under a Joint Powers Agreement by the County of San Bernardino, the County of Riverside, the City of Colton, the City of Rialto, and the City of Riverside (the Jurisdictions) on May 17, 1985. AMIGA is authorized and empowered to contract with all the other parties for the joint exercise of powers under Article I, Chapter 5, Division 7, Title 1 of the Government Code of the State of California, Sections 6500 et seq. AMIGA is self-governed by an Executive Committee which is comprised of one member of each jurisdiction, who is appointed by the Jurisdiction. San Bernardino County is the administrative agency and Riverside County is the Marketing agency for the jurisdictions.

The Jurisdictions utilize joint powers to manage, coordinate, market, and administer economic development programs and projects in the AMIGA enterprise zone area. The enterprise zone comprises specific areas within each of the six jurisdictions.

AMIGA is financed by the mandatory and voluntary contributions from the jurisdictions, and through finance generating operations of the AMIGA itself, such as revenue bonds, for which the jurisdictions shall have no obligation or liability.

Fund financial statements

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Separate financial statements are provided for proprietary funds and fiduciary funds.

Measurement focus, basis of accounting, and financial statement presentation

The proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**County of San Bernardino
Agua Mansa Industrial Growth Association
Notes to the Financial Statements
June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of AMIGA's enterprise funds is mandatory and voluntary contributions from the jurisdictions. Operating expenses for enterprise funds include the cost of services and supplies and administrative expenses.

All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Agency funds are used to account for assets held by the District as an agent for individuals, private organizations, other governments and/or other funds. The funds are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations. The modified accrual basis of accounting is used for the agency fund. The fund is used to account for the accumulation of resources for, and payment of, the bonds issued under the Mello-Roos Community Facilities Act of 1982. The bonds were issued to stimulate private investment in business and industrial growth in economically depressed areas within the boundaries of AMIGA's six jurisdictions.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the

**County of San Bernardino
Agua Mansa Industrial Growth Association
Notes to the Financial Statements
June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." All accounts receivable are shown net of an allowance for uncollectibles when applicable.

Stewardship, compliance and accountability

Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses are financed by beginning available fund balances as provided for in the County Budget Act.

Changes in accounting principle

During the 2001-02 fiscal year, the CSA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*, and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of July 1, 2001. The above changes have resulted in a change to the format and content of the AMIGA's basic financial statements.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings

**County of San Bernardino
Agua Mansa Industrial Growth Association
Notes to the Financial Statements
June 30, 2002**

NOTE 2: CASH AND CASH EQUIVALENTS – *Continued*

through investment activities. Interest earned on pooled investments is deposited to AMIGA's account based upon AMIGA's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2002.

NOTE 3: DEPOSITS AND INVESTMENTS

Interest earned on pooled investments is deposited to AMIGA's account based upon AMIGA's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2002.

NOTE 4: CONTINGENCIES

As of June 30, 2002, in the opinion of AMIGA's management, there are no outstanding matters, which would have a significant effect on the financial position of AMIGA.

NOTE 5: SPECIAL ASSESSMENT ACCOUNTING – 1982 ACT BONDS

In February 1992, bonds were issued on behalf of the Agua Mansa Community District 89-1 (the District) under the Mello-Roos Community Facilities Act of 1982 in the amount of \$16,365,000. The Bonds are limited obligations of the District and are payable from the net proceeds, after payment of certain administrative expenses, of an annual Special Tax to be levied and secured by a continuing lien against all nonexempt property located within the District. US Bank is the fiscal agent of the Bond proceeds.

In addition, the Mello-Roos bonds are not liabilities to the District and, as such, do not appear in the accompanying general purpose financial statements. The balance of the bonds, as of June 30, 2002, is \$15,480,000.

NOTE 6: DONATED SERVICES

Each Jurisdiction is required to contribute office and personnel services pursuant to Article VIII of the Joint Powers Agreement. The value of these services is not reflected in the financial statements.

**County of San Bernardino
Agua Mansa Industrial Growth Association
Notes to the Financial Statements
June 30, 2002**

NOTE 7: RESTRICTED ASSETS

Certain proceeds of the AMIGA's enterprise funds are classified as restricted assets on the statement of net assets because their use is limited by the governing body of AMIGA. The "Administration (NSD)" account is used to report resources set aside for the administrative costs of AMIGA. The "Administration (NSF)" account is used to report proceeds of the special tax revenue bond issuances for which a portion of the proceeds are set aside for the administration of the bonds.

NOTE 8: CONTRIBUTIONS

AMIGA consists of five jurisdictions: County of San Bernardino, the County of Riverside, the City of Colton, the City of Rialto, and the City of Riverside (the Jurisdictions). Each jurisdiction contributes, as a mandatory contribution, \$6,000 annually on July 1st. The mandatory contribution shall be used only for those administrative and other matters of general benefit to all jurisdictions.